

**Unleashing the  
power of civil  
society**  
January 2023



The Law Family  
**Commission  
on Civil Society**

*PRO BONO ECONOMICS*





## About the Law Family Commission on Civil Society

Launched in December 2020, the Law Family Commission on Civil Society has been an ambitious programme of ground-breaking research into how the potential of civil society can be unleashed in order to harness and enhance the powerful community bonds that exist in our nation.

Over the past two years, the Commission has examined how to get all three sectors – public, private and social – firing on all cylinders to build truly inclusive growth. Throughout, it has provided tangible ideas for policymakers, businesses, philanthropists and society to adopt in order to tackle the systemic challenges that are stopping civil society delivering on its potential.

To achieve this, it assembled 17 Commissioners, drawn from business, from public policy, from charity, from philanthropy and from community organising. The Law Family Commission on Civil Society was created by Pro Bono Economics with the generous support of Andrew Law and the Law Family Charitable Foundation.

Pro Bono Economics uses economics to support the social sector and to increase wellbeing across the UK. The charity combines project work for individual not-for-profits and social enterprises with policy research that can drive systemic change.

The Law Family Charitable Foundation was created in 2011 by Andrew and Zoë Law. It has supported a wide range of charities and charitable initiatives over the years – predominantly in education and health, alongside social mobility and the environment.

This document is the final publication of the Commission, but not the Commission's final act. In the months and years ahead, Pro Bono Economics, the Law Family Charitable Foundation and many of the organisations and individuals which have contributed to the Commission since its inception will be working to achieve the goal of unleashing the power of civil society throughout the 2020s.

## Foreword

Just as a machine can only function effectively if each one of its components is in good repair, so too a country can only work effectively if all its parts are functioning in harmony. Yet in the UK, one of the component parts we rely heavily upon has not received maintenance for some time.

The Law Family Commission on Civil Society set out to change that, in the belief that the private sector, public sector, and civil society each need to be operating at maximum strength if our country is to achieve its full potential in growth, sustainability and social progress. All three of these sectors have distinct traits which are necessary to achieve this. All three have contributions to make which can improve the workings of the others. When all three are pulling in the same direction they create a powerful force.

The Commission has therefore operated on a fully collaborative, cross-sector, cross-party basis as it has sought to find solutions to improve the functioning of the neglected component: civil society. Hundreds of organisations and individuals have contributed their views through dozens of focus groups, roundtables, interviews, written submissions, articles, and essays, culminating in the conclusions of this final report and the 26 other publications which accompany it.

One of the most striking findings to emerge from this tidal wave of collaboration and consultation is the level of consensus which exists on this topic. There is almost absolute agreement that civil society has a vital triple role to play in the UK – campaigning to improve our lives and our environment, building and bolstering our communities, and providing services to those who need them. Yet there is also a clearly shared view that major improvements are needed to enhance how civil society works. And there is a wealth of ideas as to how to achieve those improvements, and an abundance of goodwill to ensure the necessary changes can be made.

This report lays out the roadmap for achieving that change: what businesses, policymakers and public services, and civil society in its numerous forms can do together to improve the functioning of this often-overlooked sector. As Chair of this Commission, I am grateful to all who have contributed their thoughts on the changes that are needed, and even more so to those who have begun to pick up the ideas laid out here to make them a reality.

I look forward to working with all who want to continue collaborating to implement the agreed changes.

**Gus O'Donnell**  
**Chair, Law Family Commission on Civil Society**  
**Chair, Pro Bono Economics**



## Foreword

When this Commission launched two years ago, the country was in the grip of Covid, and the essential contribution civil society makes in the UK could not have been more evident. In every neighbourhood, volunteers, charities and community groups had mobilised, and were making the difference between empty cupboards and full ones, and between lonely days and ones with companionship. Now, as the rising cost of living stretches already fragile household finances, civil society has once again been rising to the challenge of providing support to the most vulnerable.



The generosity of the British public is pushed into the spotlight in times of crisis like these, and there will be more. But it is actually one of this nation's greatest strengths, year in and year out. It is vital that the time donated, the money contributed, and the support given achieves the greatest possible impact in all circumstances. That was my purpose in supporting this Commission; to build on this tremendous base to help provide the evidence, the ideas, and the impetus for civil society in the UK to fulfil its enormous potential.

This report details the important work which was undertaken and provides clear recommendations on the solutions which can drive real and meaningful change. The many hundreds of individuals and organisations which have engaged with this Commission have been brimming with ideas on how to do that. From ambitious, game-changing ideas to technical improvements which might precipitate systemic change, there are actions that all three sectors of our economy can take.

To highlight just one set of recommendations that I have been particularly taken by is the work on how civil society is integral to levelling up. Empowering local neighbourhoods to regenerate pride in place is essential, as are creating local Philanthropy Champions to act as conduits for more donations, as place is seemingly a critically-motivating factor in giving behaviour.

I was raised in Manchester and many of the fantastic causes my family foundation now donates to are about creating both support and opportunity in the local communities, principally in health, culture and education. Giving back in this way is common overseas, particularly in the US, but is less prevalent here.

I would like to thank the brilliant group of Commissioners, and everyone at Pro Bono Economics who ran the Commission, for their expertise and endeavours in bringing this report to fruition. I believe it can and must mark the start of a movement of change that will benefit all of society.

**Andrew Law**  
**Law Family Charitable Foundation**  
**Chair & CEO, Caxton Associates**

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## Acknowledgements

Civil society is made possible by the generous gifts of time, talent and treasure made by individuals committed to creating a positive change in the world. Fittingly, the same is also true of the Law Family Commission on Civil Society, which would not have been possible without the generous contributions of many dozens of organisations and many hundreds of individuals.

This Commission was chaired by Lord Gus O'Donnell, and led by a team of prominent Commissioners throughout:

- Baroness Valerie Amos CH, PC - *Master of University College, Oxford, former Secretary of State for International Development*
- Joel Davis - *Chief Executive, Tutors United*
- Shaks Ghosh CBE – *former Chief Executive, Clore Social Leadership*
- Baroness Tanni Grey-Thompson DBE - *Crossbench Peer, Paralympian and Chancellor of Northumbria University*
- Mary Rose Gunn - *Chief Executive, The Fore*
- Ruth Ibegbuna - *Founder, RECLAIM, The Roots Programme and Rekindle School*
- Dr Javed Khan OBE - *Chair, NHS Buckinghamshire, Oxfordshire and Berkshire West Integrated Care Board, former Chief Executive, Barnardo's*
- Sir Harvey McGrath - *Chair, Big Society Capital and Chair of Governors, Birkbeck College, University of London*
- Ailbhe McNabola – *Director of Policy and Communications, Power to Change*
- Michele 'Mitch' Oliver - *Global VP Brand & Purpose, Mars and Vice Chair, Stonewall*
- Professor Dame Nancy Rothwell - *President and Vice-Chancellor, Professor of Physiology, University of Manchester*
- Stephan Shakespeare - *CEO, YouGov*
- Theresa Shearer - *CEO, ENABLE Scotland and Vice President, Inclusion Europe*
- James Timpson OBE DL - *Chief Executive, Timpson Ltd*
- Matt Whittaker - *CEO, Pro Bono Economics*

For a time, the Commission also benefited from the leadership of:

- Vidhya Alakeson – *formerly Chief Executive, Power to Change*
- Karl Wilding – *formerly CEO, NCVO*

The Commission was facilitated by Pro Bono Economics, and important contributions were made by past and present team members, including: Helen Barnard, Jon Franklin, Anoushka Kenley, Jack Larkham, Tim Lamden, Tia Manavis, Mariam Mansoor, Anya Martin, Jamie O'Halloran, Nicole Sykes, Charlotte Warren, Matt Whittaker and Max Williams.

The Commissioners and Pro Bono Economics are grateful to the Law Family Charitable Foundation for providing the funding which enabled this two-year project, as well as the way in which that funding was provided – allowing the Commission to pursue its research and recommendations independently, using the highest quality evidence available, and over enough time to do a subject as large as civil society justice.

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The Commission also benefited significantly from the expertise of a Technical Panel of experts, who gave up their time over the last two-and-a-half years to test, scrutinise and develop the Commission's proposals. That Technical Panel consisted of:

- David Ainsworth
- Tony Chapman
- Bonnie Chiu
- Andy Cook
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- Rhodri Davies
- Leah Davis
- Cath Dovey
- Daniel Ferrell-Schweppenstedde
- Andy Frain
- Julia Grant
- Chloe Hardy
- Richard Harries
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- Kamran Rashid
- Cassie Robinson
- Duncan Shrubsole
- Fiona Spellman
- Antonia Swinson
- Sue Tibballs
- Rob Williamson
- Rebecca Young

This report additionally reflects the work of a number of third-party contributors who were commissioned to provide detailed contributions to the Commission. Thanks go to Professor Tony Chapman of Durham University; Josh Martin of the Economic Statistics Centre of Excellence; Gemma Bull, Caroline Fiennes and Sarah Sandford of Giving Evidence; Emma Bowkett and Harry Hobson of Neighbourly Lab; Michael Sanders of Kings College London; Ed Boyd and Harry Brown of Regenerate; as well as to David Ainsworth, Rhodri Davies, George Hoare, Addy Norfolk and Karl Wilding operating in an independent capacity.

Finally, the Commission is grateful to a number of individuals and organisations who provided written contributions to provoke thought, debate and ideas. A number of these contributions are to be published at the same time as this report. Those contributors include Tera Allas, Jason Arthur, Baroness Natalie Bennett, Rich Bell, Kirsty Blackman MP, Lord David Blunkett, Cllr Hina Bokhari, Marta Borhaug, Phil Bowen, Beth Breeze, Martin Brookes, Vicky Browning, Andy Burnham, Rita Chadha, Dan Corry, Paul Drechsler, Yvonne Field, Mary Rose Gunn, Andy Haldane, Ed Humpherson, Tufail Hussain, Javed Khan OBE, Danny Kruger MP, MBE, Sir Peter Lampl, Amanda Mackenzie, Meg Massey, Sir Charlie Mayfield, Kirsty McIntosh, Cllr Sof McVeigh, Heidi Mottram, Polly Neate, Kajal Odedra, Susan Passmore, Sir Trevor Pears CMG, Fran Perrin, Professor Raghuram Rajan, Marvin Rees, Cassie Robinson, Hetan Shah, Baroness Philippa Stroud, Sue Tibballs, Dame Julia Unwin, Lord David Willetts, Rob Williamson, Kristiana Wrixon, Ben Wrobel and Frank Young.

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## Executive Summary

In every corner of our lives and our country, civil society can be found. In every community and every city and town, civil society plays its vital triple role: bringing people together, campaigning to solve pressing problems, and providing services – particularly to those who are otherwise marginalised and overlooked. And from improving the nation's health to boosting economic growth, when it comes to achieving the change that everyone agrees is needed, civil society is essential to each and every goal.

Over the last decade, the role that civil society plays has become ever more fundamental to life in the UK. The Covid pandemic shone a spotlight on just how critical civil society is, with the seemingly spontaneous growth of mutual aid groups, the support the sector provided to the most vulnerable, and the momentous efforts of the volunteers who made the vaccine rollout a success. The current cost of living crisis has highlighted it even more starkly, as charities strive to stand between people and the worst consequences of poverty.

Yet sitting behind these recent events are substantial changes to the way civil society operates – some for the better, and some for the worse. As spending on numerous public services and local authority budgets declined at the start of the 2010s, charities, community groups and voluntary organisations found that their funding models changed and people turned to them for help in growing numbers, in new ways. To meet this challenge, civil society organisations changed and grew too. Jobs in civil society have been increasing at almost twice the rate of the rest of the economy, with the workforce recently reaching a record level of almost 1 million employees. In the charity sector, almost one in five organisations now provide social services such as domestic violence shelters or services for disabled people, the elderly and disadvantaged young people.

The ever-accelerating importance of civil society to the UK's social and economic fabric has not yet, however, been matched by recognition at national level. Since the days of the New Labour Compact and then the 'Big Society' under David Cameron, there has been little sense of a strategic vision for civil society's role and its relationship with either government or business. Though the government's 2018 Civil Society Strategy and the later Kruger Review, looking at the contribution of charities and volunteers post-pandemic, both provided some frameworks for progress, neither were able to provide a truly ambitious vision for the role of civil society or its relationships with government and other sectors. Instead, political debate continues to focus tightly on the balance between state intervention and market freedom, overlooking the importance of a sector which operates across both and provides the underlying civic foundation for any political vision.

The time is now ripe for this to change. The Law Family Commission on Civil Society has come together to lay out a plan to create the conditions for civil society to thrive, so it can better fulfil its broad range of varied and vital roles, supporting economic and social wellbeing across the whole of the UK. Achieving this ambition requires action from every sector, and leadership from government and the business community, as well as from within civil society itself.

**The Commission is calling for strategic investment from funders, this government and the next, in the productivity of the social sector, the data available to and about it, and in the changes needed to unlock philanthropy. This must be accompanied by a dramatic**



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## acceleration in the partnership between civil society and business, and a reset of the relationship between civil society and government.

With this investment, acceleration and reset, civil society's potential could be unleashed. If funders and government were to invest in the social sector's productivity – such as through the generation of better evidence of what works in the sector by a new Civil Society Evidence Organisation (CSEVO), and if those learnings were distributed by a healthy, thriving local support infrastructure – the sector would operate more effectively, making better use of the resources it has to make more of a difference in people's lives. If better data was generated from, for and about the social sector – beginning with a game-changing civil society satellite account – the sector would be able to make better decisions about policies, funding and prioritisation across a huge range of issues, with gains for both beneficiaries and taxpayers.

Overhauling the funding landscape that civil society operates in is essential to both these aims and more. The power to do this lies with grant-makers, government and regulators. A meaningful majority of grant-makers need to make more long-term, flexible financing available more simply to the sector. Government should begin to use its powers of convening, regulation and guidance, measurement, leadership, taxation, and the ability to leverage funding, in order to increase the levels of charitable giving in the UK, starting with the appointment of a Philanthropy Champion to spearhead the work in Whitehall. And important regulators, including the Financial Conduct Authority (FCA) and Charity Commission, must take action to improve financial advice on philanthropy and clarity on what good grant-making looks like.

Underpinning this investment with partnership is essential. Every person, business and policymaker in the UK has a vested interest in ensuring that civil society is vibrant, resilient and as impactful as possible. As businesses seek to achieve greater purpose alongside profit, there is a huge opportunity for both the private and social sectors to work together and leverage each other's strengths. Meanwhile, a reset in the relationship between government and civil society is crucial, and should be underpinned by a greater proliferation of informal links, such as a drive to increase civil service volunteering and trusteeships, and formal structures, such as an annual 'Chevening-style' event where civil service and civil society leadership agree joint priorities for the year.

**Together, the changes proposed by this Commission strive to achieve a country in which more people receive better, faster, more targeted support from civil society when they need it, wherever they live. The Commission envisions a country in which the voices of people who find it most difficult to be heard are louder in the rooms where decisions are made, lifted by a more diverse and representative civil society. A country in which a greater proportion of society's problems are stopped before they start, with civil society better able to focus on prevention than on crisis, and with all three sectors working together to solve the totemic issues faced by all. And when crises do inevitably occur – whether for individual families or entire countries – people emerge from those crises more swiftly and less affected, as a result of a stronger, more responsive and better-led civil society playing its part to its fullest.**

There is clear cross-sector, cross-party support for this vision. Over the Commission's two-year lifespan, hundreds of organisations and individuals from different backgrounds have contributed to its work, bringing an incredibly rich range of insights and ideas about how this vision might be achieved. All of these groups and individuals are brimming with ideas, keen

to remove barriers and to collaborate on solutions. They have helped to craft both incremental and transformative proposals and started to turn ideas into reality even before the Commission has concluded.

In addition to this support from all directions, there is also a sense of distinct urgency to see change achieved. The pandemic, the cost of living crisis, and indeed the financial crisis before it, have strained both the country's economic institutions and the nation's social fabric – the community ties, social support and neighbourhood amenities that most people rely on in their daily lives. Faced with political instability, falling incomes and soaring demand, civil society has risen to every challenge. But it has been sorely tested. The need for civil society's full potential to be unleashed has never been bigger.

## How to unleash civil society's potential

The Commission has investigated the nature and drivers of the challenges facing civil society and the opportunities which are currently out of its grasp, but could deliver real change. It has identified existing solutions and new ideas, and considered the necessary role of each of the three sectors in delivering them. This has culminated in an ambitious set of proposals which together would unleash the full potential of civil society over the 2020s and beyond.

### 1. Building productivity and organisational effectiveness

Having an impact is at the heart of everything the social sector does. Every charity, community group, community business and voluntary organisation strives to achieve the greatest possible impact with the resources it has, and the financial and demand pressures many organisations face heightens the critical nature of this. This impact imperative means that organisations in the sector have a strong incentive to take action to maximise their productivity and effectiveness. However, doing so can be challenging. Charities face many of the barriers to improving their effectiveness that small businesses commonly experience, but they also face additional issues arising from their specific nature and funding. The sector has also tended to be overlooked in government policy meant to drive up national productivity.

Innovation, effective use of technology, good management practices and investment in people all enable organisations to increase productivity. However, many social sector organisations struggle to make the most of these due to restrictive and inefficient funding; insufficient data and evidence; and a lack of infrastructure to spread knowledge and ideas and connect them to specialist skills. The social sector's lack of diversity and systemic low pay further exacerbate the difficulties it experiences in driving up productivity and impact. The pressure to meet rising demand with constrained resources risks damaging staff and volunteers' wellbeing, creating burnout and increasing difficulties with recruitment and retention. The government should make unclaimed Gift Aid of £380 million per year available, alongside more effective use of existing funding streams to help improve the sector's productivity, including by implementing the Commission's recommendations that:

- A radical shift in approach from funders is needed, away from short-term funding, restrictive grants and contracts, and towards support for core costs (including those associated with property where this is integral to charities' operations) and investment in people, processes and organisational development.

- Government and funders should work together to create a new CSEVO, which is essential for improving the availability and spread of evidence across the sector, reducing duplication and increasing best practice.
- UK and devolved governments should provide social sector organisations with access to and adaptations of centrally-funded productivity schemes currently restricted to businesses, and ensure these are designed and communicated effectively to support community businesses and social enterprises.
- Led by a partnership between the Department for Levelling Up, Housing and Communities (DLUHC) and the Department for Digital, Culture, Media and Sport (DCMS), the UK government should carry out a 'root and branch' review of local social sector infrastructure, which is the first critical step towards revitalising local infrastructure, so that it can act as a 'diffuser' of evidence and knowledge and a 'convener' to support collaboration, networking, peer support and information exchange among local charities, as well as connecting them to specialist skills providers.
- The newly-created Vision for Volunteering team, business organisations and the UK Pro Bono Network should work together to maximise the level and effectiveness of skilled volunteering, which holds huge potential.

## 2. Creating timely, accessible data and robust evidence about the sector

Better data is necessary to inform good decision-making within the social sector and among the funders and policymakers who influence it. The Commission has identified three kinds of data which are important for this: data about the sector (to provide a picture of its nature and development); data for the sector (to enable it to target and evaluate its activities); and data from the sector (to enable policymakers, the public, funders and beneficiaries to understand its activities and outcomes).

There is demand for improvements to data about the sector's size, scope, distribution and composition, its capacity and resources, its financial health, and its value and impact. Research for the Commission found that simply including the contribution of volunteers and taking account of lowered pay in the way the sector is treated in the National Accounts increases its estimated value by between 60% and 80%.

During the life of the Commission, there have already been significant improvements to social sector data, both through initiatives within the sector itself and with policymakers acting on the Commission's recommendations. The commitment by the government and Office for National Statistics (ONS) to establish a new civil society satellite account is among the most notable of these advances.

Building on these advances, the Commission proposes:

- The social sector must give more priority to its own data infrastructure. More charities should grasp opportunities to improve their collection and use of data; share the data they already hold to increase evidence about what works and help them benchmark against peers; and commit to ethical use of data by committing to voluntarily apply the Office for Statistics Regulation's (OSR's) Code of Practice for Statistics where relevant.

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- Funders should encourage and support charities to collect, use and share high quality data. They should also share their own data and engage with initiatives such as 360Giving and independent benchmarks such as the Foundation Practice Rating.
  - As part of a campaign to accelerate the partnership between the private and social sectors, businesses with staff skilled in data collection and analysis should be actively encouraged to seek out opportunities to share these skills with charities.
  - UK and devolved governments should play a coordination and leadership role on social sector data, including by delivering the promised civil society satellite account, creating more data labs, and working with the sector to extract the data held about charities across national surveys and administrative records for use by both policymakers and the social sector itself.

### 3. Improving the scale, distribution and impact of funding for the sector.

Improving the funding landscape that supports the social sector is integral to enabling the sector to achieve all it aims to, and all that the country needs it to. Civil society relies on a mixed economy of funding from government, the public, private and voluntary sectors. Philanthropic and grant funding have become increasingly important to the social sector as they play a unique role in enabling innovation, risk-taking, patient experimentation and organisational development.

The Commission has found that improvements in the level and distribution of philanthropy and grant-making would strengthen civil society immensely. An additional £5 billion per year could be raised from public donations if the UK matched other leading countries.

Far greater impact could also be unlocked if more grant-makers tackled the geographical and social imbalances in the distribution of funding, and the short-termism and inefficiencies which undermine their goals.

The Commission therefore recommends:

- As part of a radical shift in their funding, more grant-makers should offer long-term, flexible funding, invest in building charities' capabilities, and streamline their application and management processes. They should be encouraged and supported in this by the Charity Commission, infrastructure bodies and independent benchmarkers, making this core part of how charities operate a priority.
- The UK government should make use of the power it has to boost philanthropy, starting with the appointment of a Philanthropy Champion and a 'leveraging philanthropy' drive across Whitehall.
- Local authorities and mayors should appoint local philanthropy champions, working with them to draw funding to those places which need it most, for instance through match-funding schemes.
- National and regional policymakers should also increase access to other forms of finance, such as community shares and social investment, particularly for community businesses, and ensure the sector is equipped to make use of these income streams.
- The FCA should use its powers over the relevant curricula to require both qualified and qualifying financial advisors to be receive training on philanthropy and impact investing, as part of its work on the Environmental, Social and Governance (ESG) agenda and the Consumer Duty.

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#### 4. Bringing businesses and civil society together

Businesses are a valuable and underused source of funding and skills for the social sector, with even greater gains to be achieved through more substantive partnerships to reach common goals. Partnerships between businesses and charities benefit both sectors and wider society, when all organisations in the partnership are able to trust, understand and respect the other's role.

Increasing emphasis within the corporate world on achieving purpose, as well as profit, is opening up more opportunities to strengthen and spread these links, and civil society organisations are ideally placed to support businesses as they develop social purpose and get to grips with each strand of the ESG agenda.

Local social sector organisations' income from businesses currently totals £2.4 billion a year, which is a significant support, but amounts to just 0.06% of the private sector's turnover, and an average business contribution of just £450 a year to small charities. Business support is also distributed very unevenly, with large charities gaining far more than small ones, and those serving people in rural areas, older people and ethnic minority communities receiving much less support than organisations serving other groups. There is tremendous scope for business to contribute more to the sector, releasing urgently needed resources, and for more businesses to benefit from the insight, trust and connections of charities through partnering with them.

The Commission believes that:

- Business and charity infrastructure bodies should urgently form a partnership focused on raising awareness of the benefits of links among both businesses and charities, creating opportunities for both sectors to come together where they have shared goals, and spreading resources that provide both sectors with the tools to overcome the barriers to working together. Tackling the current cost of living crisis should provide the initial impetus and focus for this, given the relevance for both sectors.
- Charities, businesses, investors and advisors should work together to improve the measurement of businesses' social impacts and the value of civil society partnerships, as well as driving the use of voluntary disclosure initiatives to encourage more businesses to engage with civil society.
- Civil society organisations should campaign with businesses and investors to drive behaviour change and increase take up of opportunities to work with civil society.
- The UK government should aim to reinstate the requirement for businesses to report their contributions to charities and civil society. Ahead of mandating disclosure, it should incentivise more businesses to make voluntary disclosures to platforms such as the Workforce Disclosure Initiative (WDI) and the Business for Societal Impact (B4SI) database by linking tax relief and procurement to disclosure.

#### 5. Strengthening relationships with policymakers

Policymakers at every level of government have a critical role to play in enabling all of these improvements to take hold, and working with civil society to achieve social and economic progress in every part of the UK. The Commission has found a strong bedrock of engagement and respect between charities and policymakers, as well as appetite among every group of policymakers to increase and improve relationships.

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Extremely high proportions of MPs and councillors are in contact with charities, drawing on their evidence and insight and connecting them with local people in need of support. The Commission is concerned, however, that nearly half of civil servants have no contact with charities, meaning they are developing, assessing and recommending policies without the benefit of the social sector's insights and shaping the environment in which charities operate without input from the organisations and volunteers whose vital work they might be helping or hindering.

The Commission believes that the spirit of collaboration and ambition which underpinned the Compact between government and civil society established in 1998, and renewed in 2010, needs to be revived for the coming decade. It recommends that:

- Charities and governments (both the UK government and devolved governments) should jointly create more opportunities for civil servants and charities to work together, through an annual 'Chevening' event for permanent secretaries and sector leaders, revised training for civil servants, and increasing secondments and volunteering opportunities.
- The social sector should continue to increase the quality of its evidence and campaigning, enabled by more support from funders for these activities.
- The UK and devolved governments should increase the representation of charities within formal consultation structures, such as departmental advisory groups, and ensure charities are not excluded from these due to legitimate criticism of government policy or practices.

## 6. Unleashing potential at local and regional level

Finally, relationships with local policymakers, businesses and other stakeholders are central to enabling civil society to unleash its full potential across the country. Effective collaboration between local civil society organisations and local policymakers brings enormous benefits to both. Civil society organisations can achieve positive change for their communities and beneficiaries, access funding and support and create an operating environment in which they can thrive. Local policymakers gain greater insight into the needs of their area, improve their services and tap into community resources and innovative ideas.

Bringing together the Commission's research, with lessons drawn from practical examples across the country, the Commission concludes that:

- Local policymakers and civil society leaders should shift from fragmented individual relationships (often transactional and focused on procurement or funding) to creating strategic relationships with the social sector as a whole.
- Local authorities need capacity internally to create and sustain relationships with civil society. This means dedicating staff time and resources to this.
- Local civil society organisations must be willing and able to work in a coordinated way, engaging strategically and looking beyond individual organisations' interests. Effective, independent and well-resourced local infrastructure is vital for this.
- Senior leaders on all sides must demonstrate commitment to this vision. Strong personal relationships across sectors are crucial, with effective structures and processes to spread joint working throughout organisations and avoid over-dependence on specific individuals.
- Civil society organisations need funding which enables them to engage effectively in strategic relationships and promotes collaboration, rather than competition.

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## 1. Introduction

Civil society can be found on every street, in every village, town and city, and – increasingly – in the online spaces in which people live their lives. From the WhatsApp groups organising fetes and clothing swaps, to the coordinated movements combating loneliness; from scientists hard at work curing rare diseases thanks to charity funding, to community gardeners providing opportunities to older and disabled people; from the collection tin next to the till at the local pet shop, to the big business dinners fundraising for their charity of the year – civil society is everywhere. Civil society is an expression of the connections that exist between individuals and institutions in every part of our nation. People engage in civil society whenever they find common interests and make their voices heard, when they debate the future they want to see, campaign for social or economic change, help neighbours and friends, or make communities better places to live.

Civil society is an expression of the connections that exist between individuals and institutions in every part of our nation. It can also be more narrowly conceptualised as the set of organisations that provide the infrastructure for those connections, from charities to trade unions and from housing associations to social enterprises.

Over the two years of its operation, the Law Family Commission on Civil Society has been concerned with both the broader and narrower concepts of the UK's civil society. The broader view allows for the exploration of the integral role that civil society plays in the success of the economy, the functioning of democracy, the strength of communities and the nation's wellbeing. Taking the narrower view, the Commission has been interested in how the subset of charities, community groups, voluntary organisations and community businesses that form the 'social sector' can achieve even more than they currently do, working alongside the private and public sectors. This cross-sector perspective underpinned the Commission and is one of the things which has made the endeavour unique.

While most people intuitively grasp the different functions of the public and private sectors, the nature and role of civil society is often less well understood. The 'third pillar' that is civil society combines some of the features of the other two, allowing it to play a distinctive role. Like the public sector, it is concerned with providing public goods rather than generating profit. Like the private sector, it is dispersed, agile and driven by individuals and communities rather than constructed to a centralised plan. This combination of characteristics enables civil society to play multiple roles both in local communities and national life – spotting problems and opportunities; innovating to meet them; driving social change; enabling communities to take action to improve their area; and reaching groups often marginalised in both the political and commercial realms.

However, this unique combination of characteristics also creates some specific challenges for the sector. The combination of a lack of a controlling central hand such as exist in the public sector through democracy, and a lack of a price mechanism such as exists in the private sector, creates the risk in civil society of efforts being inadvertently and inefficiently replicated in some areas, while other areas are left without the necessary services and capacity that civil society can provide. Large swathes of the benefits created by civil society also go unrecorded in financial terms, meaning that it tends to be undervalued and can easily be overlooked when policies are being developed and decisions made.

The funding mechanisms for much of the sector can also create challenges. In particular, the fact that in many cases the person funding the activity is separate from the person, or people, receiving or benefiting as a result of it can create a mismatch between what funders believe is necessary and the needs or desires of beneficiaries. Finally, there is a challenge inherent in the model by which the resources that support the sector - particularly public donations and government investment - tend to become tightest at precisely the moment at which demand is highest, during national crises such as recessions. This is also the case for the public sector, but civil society generally lacks the option of borrowing to fund activity during these peak times when other finance is constrained, in the ways the public sector can. It is therefore necessary to think creatively about the approaches that would enable this vital sector to contribute all that the country needs from it both in times of crisis and renewal.

It is important to note that social enterprises are a key part of both civil society and the business community. They occupy a unique position which enables them to create a distinctive range of benefits for local communities and the nation as a whole. There are now thought to be around 100,000 social enterprises nationally, reflecting the growing desire for businesses which can improve society at the same time as providing a financial return. Their commitment to reinvest or distribute their profits back into achieving their mission encourages long-term thinking and a broader understanding of their business's social, environmental and economic impacts. Social enterprises have also demonstrated the characteristics required to boost the UK's productivity, alongside their commitment to social good. They are more likely than small and medium-sized businesses to invest in training staff and they lead their business counterparts when it comes to staff diversity and flexible working arrangements, both shown to increase employee motivation and boost growth.

The Commission recognises the importance of this sector and the significant work done by Social Enterprise UK, the Commission on Social Investment, UnLtd and others to develop ideas aimed at growing business support for civil society and social enterprises. It also recognises that there is not a clear dividing line between charities and social enterprises. Rather they operate along a spectrum. At one end are charities and community groups which do not trade or make a surplus and which rely wholly on grant-funding, public donations and other forms of philanthropic finance. At the other end are those social enterprises which are financed purely through trading and other forms of business investment, and can be substantial businesses. However, very many charities derive large parts of their income from trading and contracts or may operate a social enterprise arm. And many social enterprises are also registered as charities, invest their surplus into community benefits and may rely in part or primarily on grant income. In particular, locally-focused community businesses or community based social enterprises<sup>1</sup> have a great deal in common with charities and community groups and would usually be considered as part of the 'social sector'.

Given the expertise of others in this area, the Commission has not attempted to carry out substantial work focused on social enterprises as a whole, but many of its findings and proposals are relevant to some social enterprises, particularly community businesses, and can be viewed alongside those developed by more expert bodies addressing this vital sector as a whole.

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<sup>1</sup> N Bailey et al, [An assessment of community-based social enterprises in three European countries](#), Power to Change, 2018

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## The Commission and this report

The Law Family Commission on Civil Society was launched in December 2020, amid a global pandemic that was placing unprecedented strain on every part of society and the economy. Individuals and families were struggling with fear, loss, financial insecurity, unpredictable and abrupt halts to everyday routines and estrangement from friends, family and colleagues. Businesses, charities and public services were facing sudden and radical disruptions to their operating environments and having to innovate at incredible speed to cope. Over the course of the Commission, the immediate intensity of the pandemic has receded, to be replaced with a different financial, social and economic malaise in the form of the cost of living crisis. Each subsequent shift has revealed in new ways the importance of civil society, and how much potential there is to unlock.

Over two years of research, consultation and development, the Commission has brought together experts and practitioners from the public, private and social sectors. Hundreds of individuals and organisations from across the country have contributed their time and views through written responses to calls for evidence, roundtables, focus groups, consultation events, surveys, essays and the provision of data. Together with these organisations and experts, the Commission has sought to draw out how civil society's unique strengths can best be amplified and how to collectively overcome its distinctive challenges by examining what works in the private and public sectors, what good looks like in the social sector, the barriers to achieving even more and how to overcome them. Crucially, it has also considered how the different parts of the economy can best interact to produce optimum outcomes.

Through this process, the Commission has identified five central barriers which are preventing civil society from achieving its full potential:

- Challenges in relation to social sector productivity and organisational effectiveness;
- A lack of timely, accessible data and robust evidence about the sector;
- Inefficient, inequitable and inadequate funding;
- Too few links between business and the social sector;
- Weaknesses and gaps in relationships with policymakers.

Overcoming these barriers is a significant undertaking. No one organisation and no one sector can do it alone, and crucial to overcoming these barriers is recognition of the complementary roles played by the three pillars of society – the public sector, private sector and civil society – and the need for all three to work together. But the Commission has found an abundance of ideas, energy and enthusiasm to succeed in doing so within the social sector itself and among policymakers and business leaders.

The rest of this report lays out the Commission's analysis of the barriers holding civil society back from achieving its full potential and its recommendations for action from all three sectors to so these barriers can be overcome them.

- Section 2 explores the role of civil society and its importance to the UK's society and economy;
- Sections 3 to 7 address each of the five barriers identified above, setting out the nature of the challenge, its impact and solutions to overcome it;
- Section 8 focuses in more detail on how the full potential of civil society can be unleashed at a local and regional level;
- The conclusion follows.

## 2. Civil society: The glue that binds the nation together

*“The public hugely value the importance of civil society. The UK’s large charities are some of the most trusted and highly-regarded brands in the country, while local community groups and voluntary organisations are seen to be essential to improving people’s lives and the places they live,” – Stephan Shakespeare*

### Box 1. Key findings

- Civil society plays a vital role in every community in the UK.
- Achieving every national goal the UK has - from economic growth, to health and wellbeing, to the green transition – relies on the contribution of a thriving civil society.
- The public holds the social sector in high esteem, valuing and trusting it to both provide services and drive social change.
- Social sector organisations are leading creators of social capital, which is an essential component of both economic growth and social cohesion.
- They are also major providers of public services, and uniquely able to support groups which are marginalised and distrustful of both public sector organisations and businesses.
- Few significant steps forward in the UK’s history could have been achieved without civil society leading the way as campaigners and innovators, from women’s suffrage to averting the existential risks posed by holes in the ozone layer.
- A vibrant, resilient social sector is in the interests of every individual, business and policymaker in the land. And all have a role to play in ensuring it reaches its full potential.

The public holds the social sector in high esteem. Overall, 84% of people in the UK believe that charities and community groups are an important part of our society and the majority of the public believe charities are both effective and trustworthy.<sup>2</sup>

In addition to showing how much they value the social sector in opinion polls, the public also make it clear by donating and purchasing goods and subscriptions from charities, with the sector receiving £30 billion of its income from the public in 2019-20<sup>3</sup> and the UK public ranking among the most generous in the world in terms of charitable donations.<sup>4</sup> With 16.3 million people formally volunteering through groups and clubs in 2020-21<sup>5</sup> and over half of the population consistently engaging in some form of civic activity each month, even throughout the pandemic,<sup>6</sup> the social sector is a feature in a significant proportion of the population’s daily lives.

Civil society contributes to any number of national goals and priorities. From economic growth to health and wellbeing, social sector organisations provide insight, services and the

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<sup>2</sup> A Martin, [In the Public Eye: Snapshot of public attitudes towards civil society](#), Law Family Commission on Civil Society, January 2020

<sup>3</sup> National Council of Voluntary Organisations, [UK Civil Society Almanac 2022](#), October 2022

<sup>4</sup> A Kenley, J O’ Halloran, K Wilding, [Mind the giving gap: unleashing the potential of UK philanthropy](#), Law Family Commission on Civil Society, December 2021

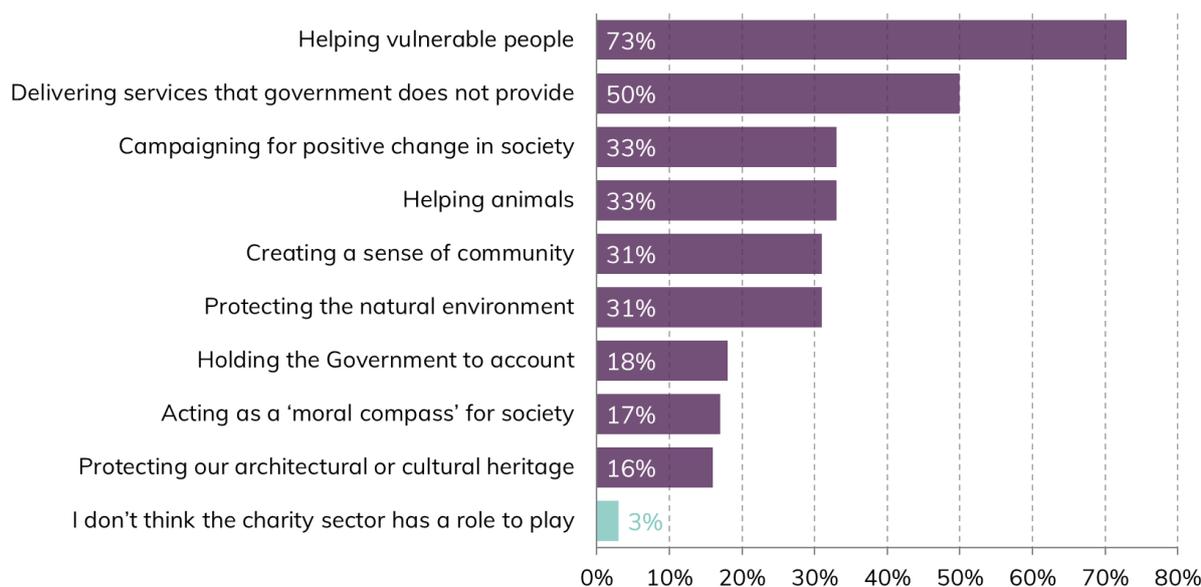
<sup>5</sup> National Council of Voluntary Organisations, [UK Civil Society Almanac 2022](#), October 2022

<sup>6</sup> Charities Aid Foundation, [UK Giving Report 2021](#), 2021

underlying social capital without which progress is impossible. The public recognise the variety of roles played by the social sector, and value its contributions both to service provision and social change. And both they and policymakers believe that Britain would be a better place if charities and community groups played a bigger role in decision-making.<sup>7</sup>

**Figure 1: The public value the charity sector's contributions to both services and social change**

*Which are the most important functions of the charity sector? (select up to four)*



Notes: Total sample size was 1,696 adults. Fieldwork was undertaken 18-19 November 2020. The figures have been weighted and are representative of all GB adults (aged 18+). Excludes 'Something else' (3%) and 'Don't know' (10%)

Source: Online survey undertaken by YouGov Plc on behalf of the Law Family Commission on Civil Society

## Social infrastructure helps create a strong, resilient and inclusive economy

Social infrastructure – the places, organisations and connections that support community life – plays an important role alongside 'hard infrastructure' like transport and broadband, in creating strong local economies that deliver rising living standards. Investment in this social infrastructure is estimated to yield economic, social and fiscal benefits worth £3.2 million over 10 years from every £1 million invested in it, with gains including increased employment, reduced crime, and improved health outcomes.<sup>8</sup>

Civil society organisations form a key part of the nation's social infrastructure, as leading creators of **social capital**. By creating connections between people, civil society organisations combat loneliness, boost wellbeing, create cohesion, and enable sharing of knowledge, links to opportunities, and support to help drive creativity, innovation and entrepreneurship.

To revive the economy, both this social capital and financial capital are necessary. Depleted social capital has been shown to be a significant cause of economic under-performance in some places.<sup>9</sup> And analysis of previous approaches to regeneration have shown that strong

<sup>7</sup> A Martin, [In the Public Eye: Snapshot of public attitudes towards civil society](#), Law Family Commission on Civil Society, January 2020

<sup>8</sup> Frontier Economics, [The impacts of social infrastructure investment. A report for Local Trust](#), Local Trust, June 2021

<sup>9</sup> K Hamilton, J Helliwell, M Woolcock, [Social capital, trust and well-being in the evaluation of wealth](#), Policy Research Working Paper No. 7707, World Bank, 2016

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civil society involvement is vital to success, as places with more civic assets and greater community participation achieved the greatest and most long-lasting reductions in deprivation.<sup>10</sup>

One of the ways in which social sector organisations create social capital and help boost growth is through addressing **skills shortages and supporting people to take up jobs**. A thriving economy depends not only on creating more and better opportunities. It must also equip individuals and communities to grasp them and truly gain the benefits of better jobs and wages in the everyday economy, as well as new opportunities in high tech and green industries. That requires improvements in skills, education and health. Charities and community groups play a vital role in delivering those outcomes, both through the services they deliver and the volunteering opportunities they create. Many volunteers gain valuable skills, and volunteering can also significantly boost wellbeing, with people on low incomes and those with lower initial life satisfaction and weaker social networks benefiting most.<sup>11</sup>

Community businesses are also important sources of jobs for people in deprived places and for groups furthest from the labour market. Research by the Bennett Institute<sup>12</sup> found that nearly half of jobs in some towns were provided by social infrastructure-related industries, and that these organisations are particularly important for people who have been unemployed for a long time. These businesses, like charities and community groups, also provide thousands of volunteering opportunities, helping people to develop the skills and experience to enable them to move into employment.<sup>13</sup>

Skills shortages are one of the main barriers to business success in the UK,<sup>14</sup> with 87% of employers struggling to fill roles and just over half (51%) reporting that skills shortages are their main challenge. This highlights the importance of the role played by charities in delivering training, as the social sector provides as much training as local authorities and about half as much as further education colleges.<sup>15</sup> It is especially important in providing education to those furthest from the labour market - for example to refugees, disabled people and those with health conditions, and to young people from disadvantaged backgrounds. It offers very effective outreach and learning support for hard-to-reach learners, as well as training a higher proportion of women, people with learning difficulties or disabilities, people from BAME backgrounds, and people aged 65 or older.<sup>16</sup>

Poor health is also leading to increasing numbers of people remaining out of the labour market. Charities are central to turning this around through their preventative role in communities, as the largest providers of NHS-commissioned mental health services, and as a fundamental part of social prescribing.

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<sup>10</sup> J Larkham, [Why civil society is essential to levelling up](#), Law Family Commission on Civil Society, October 2021

<sup>11</sup> PBE in association with C Courtney, T Dooner, R James and W Lobo, [How cost effective are employee volunteering schemes as a way of improving staff well-being?](#), Pro Bono Economics, March 2021

<sup>12</sup> Kelsey, T. and Kenny, M. (2021) Townscapes 7: The Value of Social Infrastructure [online]. Cambridge: Bennett Institute for Public Policy, University of Cambridge. Available at [https://www.bennettinstitute.cam.ac.uk/media/uploads/files/Townscapes\\_The\\_value\\_of\\_infrastructure.pdf](https://www.bennettinstitute.cam.ac.uk/media/uploads/files/Townscapes_The_value_of_infrastructure.pdf)

<sup>13</sup> N Plumb et al, [Backing our neighbourhoods: making levelling up work by putting communities in the lead](#), Power to Change, 2021

<sup>14</sup> Monster, [Flexible Future: UK Hiring Outlook 2022](#), April 2022

<sup>15</sup> Third Sector Engagement and Participation in the Learning and Skills Sector, Department for Business, Innovation and Skills, April 2013

<sup>16</sup> Third Sector Engagement and Participation in the Learning and Skills Sector, Department for Business, Innovation and Skills, April 2013

Civil society can also help to **revive high streets**. Declining footfall has been weakening high streets for years. The rise of online retail and out of town shopping centres, plus underinvestment in local transport, set a trend that was accelerated by the pandemic. Reinvigorating local town centres is important for many communities but research shows that residents value their high streets for their contribution to social fabric as well as for commercial amenities.<sup>17</sup> This is borne out by the fact that high streets which included a mix of social, retail and leisure facilities saw less decline in footfall than those dependent primarily on shopping.<sup>18</sup> Libraries, cinemas, art exhibitions, cafés, restaurants, pubs and green spaces are vital to attract people to high streets and encourage them to stay and spend money there. Thriving high streets and town centres in turn help to attract and retain workers to fill the high value jobs being created in the knowledge, service and green economies.

Community businesses play an especially important role in delivering on both the economic and social priorities of people. They have a strong track record of improving the physical fabric of deprived places, while also attracting further investment and supporting other businesses to become established and thrive. They provide job and training opportunities to local people and especially to groups often shut out of the benefits of regeneration. Research for Power to Change found that “community-owned properties on the high street serve as ‘destination spaces’ – increasing footfall which in turn boosts spending in other high street businesses. [As well as]... bringing in groups who would not otherwise have felt comfortable or attracted to the high street.”<sup>19</sup> These community businesses were also found to boost other local companies by providing space enabling them to trade, or through voucher programmes or other ways to stimulate demand.

Research for Power to Change<sup>20</sup> found that community businesses make three distinct types of contribution to revitalising high streets. They support regeneration by occupying buildings temporarily while the rest of the market recovers, bringing ‘landmark buildings’ back into use and enabling new economic activities to expand and complement what high streets offer local people. They support reintegration by widening the range of users attracted to the high street and bringing groups back into spaces from which they have felt excluded. And they can spark a reorientation of a struggling high street or area by providing the opportunity to focus on new types of activities or meeting new needs.

The important role that civil society plays in local growth is recognised by the public so strongly that they believe that money aimed at ‘levelling up’ should be devolved to local government and local charities, having more trust in them to use it effectively than they do in national government or business.<sup>21</sup>

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<sup>17</sup> We Made That and LSE Cities, [High streets for all](#), Greater London Authority, September 2017

<sup>18</sup> T Kelsey, [Townscapes: the value of social infrastructure](#), Bennett Institute for Public Policy, May 2021

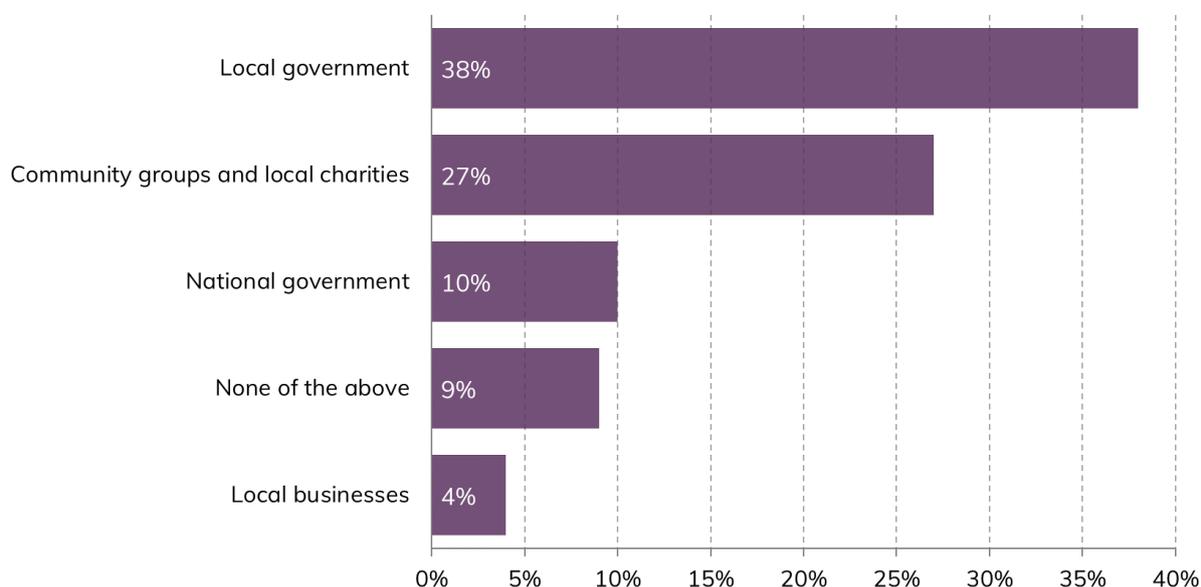
<sup>19</sup> N Plumb et al, [Backing our neighbourhoods: making levelling up work by putting communities in the lead](#), Power to Change, 2021

<sup>20</sup> J Dobson, [Community businesses and high streets: ‘taking back’ and leading forward](#), Centre for Regional Economic and Social Research, Sheffield Hallam University, 2022

<sup>21</sup> J Larkham, [Why civil society is essential to levelling up](#), Law Family Commission on Civil Society, October 2021

**Figure 2: The public think local government and civil society should be in control of levelling up their area**

*If the government were to provide more money to 'level up' the place where you live, who do you think should be in charge of deciding how the money should be spent?*



Notes: Total sample size was 1,011 adults. Fieldwork was undertaken 26-31 August 2021. The figures have been weighted and are representative of all adults (aged 18+) in areas prioritised for investment in round one of the Levelling Up Fund. Excludes 'Don't know' (12%)

Source: Online survey undertaken by YouGov Plc on behalf of the Law Family Commission on Civil Society.

Finally, community-led solutions are also vital to achieving a successful green transition. Renewable energy is on the rise, but it needs to grow much faster to meet climate targets. Clean energy experts have pointed to the benefits of localised approaches<sup>22</sup> to achieving this as they drive innovation and behavioural adaptations, as well as contributing to local employment and incomes. Many of these local approaches rely on volunteers and civil society organisations, such as the non-profit energy cooperative Repowering London<sup>23</sup> and the Barley Bridge Weir Hydro-Electric scheme<sup>24</sup> in Cumbria.

### Charities are essential to public services, with distinctive strengths that complement public and private sector provision

A large proportion of the UK's 160,000 charities and the millions of people who work and volunteer for them play a fundamental role in providing services for the public good – from mental health to social care, children's and youth services to housing. These services can be related to state-provided services in a number of ways. They may be directly commissioned by and funded by the state, or they may do what state-funded or state-delivered services never could. They may supplement state services, subsidise state services, or fill the gaps that state services leave behind.

In **health**, for example, charities and community groups work hand-in-hand with public services to prevent ill health and other difficulties arising or becoming worse. The sector's role

<sup>22</sup> [Reclaiming power: The rapid rise of community renewable energy and why the added benefits of local, clear power can help accelerate transition](#), Rapid Transition Alliance, February 2021

<sup>23</sup> <https://www.repowering.org.uk/>, accessed January 2023

<sup>24</sup> S Hielscher, [Barley Bridget Weir Hydro Scheme: An Innovation History](#), Community Innovation for Sustainable Energy research team, February 2012



in building social capital helps to reduce the prevalence of common mental illness and poor self-rated health,<sup>25</sup> as well as participation in harmful practices such as smoking.<sup>26</sup> People with stronger social relationships live longer and healthier lives.<sup>27</sup> In fact, social isolation has been shown to be as powerful a predictor of mortality as risk factors such as smoking, obesity, high cholesterol, and elevated blood pressure.<sup>28</sup>

The value of the social sector in this regard is significant. The social sector is also the largest provider of NHS-commissioned mental health services, with 1.5 million people accessing its support.<sup>29</sup> In total, 1.7 million people volunteer for health or care services across Britain,<sup>30</sup> with the value of the 125,000 volunteers in hospices alone estimated to be more than £200 million each year.<sup>31</sup> Charities invested an estimated £1.9 billion in medical research in the UK in 2019, accounting for 51% of all public spend on medical research.<sup>32</sup> Nearly a quarter (24%) of the total value of health and social care contracts awarded between April 2016 and March 2020 went to social sector organisations, which are also rated more highly than their for-profit counterparts for quality of care.<sup>33,34</sup>

Similarly, the social sector provides advice and aid to victims of **crime**, including as the main provider of domestic abuse support. In 2020-21, charity Victim Support provided help to 153,100 people.<sup>35</sup> In addition to the unique position of trust occupied by the social sector, its ability to specialise is an enormous strength. Surviving Economic Abuse, for example, has trained 1,000 professionals<sup>36</sup> to deal with a poorly-understood and complex type of abuse. Meanwhile, charities with particular understanding of LGBT+ victims, victims from ethnic minority groups and victims of particular ages, form a vital part of the ecosystem.

Charities also work with the public sector to prevent reoffending. From the provision of mentors to career support, addiction services to family engagement, resettlement to restorative justice, charities are a trusted, independent source of support – which both help to reduce crime into the future and save the taxpayer money. Some charitable programmes are associated with a reduction in one-year reoffending rates of 40% to 24%,<sup>37</sup> while Pro Bono Economics has calculated that programmes like those run by The Clink deliver at least a four-fold return on investment.<sup>38</sup>

Charities' role in **education** is also critical, with many of the thousands of children's charities in the UK working closely with schools and families to give children the best possible start in

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<sup>25</sup> D Pevalin & D Rose, [Social capital for health: investigating the links between social capital and health using the British Household Panel Survey](#), Health Development Agency, January 2003

<sup>26</sup> L Rocco & B d'Hombres, [Social Capital and Smoking Behavior](#), *Eastern Economic Journal*, Spring 2014

<sup>27</sup> J Holt-Lunstad, T Smith & J Bradley Layton, [Social Relationships and Mortality Risk: A Meta-analytic Review](#), *PLOS Medicine*, July 2010

<sup>28</sup> N Adler et al, [Social isolation: a predictor of mortality comparable to traditional clinical risk factors](#), *American Journal of Public Health*, September 2013

<sup>29</sup> D Bull, I Joy, S Bagwell, F Sheil, [Supporting good health: The role of the charity sector](#), New Philanthropy Capital, October 2014

<sup>30</sup> H Gilbert, D Buck, J South, [Volunteering in general practice: opportunities and insights](#), The Kings Fund, February 2018

<sup>31</sup> D. Prail, [Leadership reflections from a hospice chief executive](#), Charity Finance, August 2015

<sup>32</sup> [Association of Medical Research Charities](#), accessed May 2021

<sup>33</sup> [UK public procurement through VCSEs, 2016-2020. Report for the Department for Culture, Media and Sport](#), tussell government contracts, March 2021

<sup>34</sup> A M Bach-Mortensen, P Montgomery [Does sector matter for the quality of care services? A secondary analysis of social care services regulated by the Care Inspectorate in Scotland](#), *British Medical Journal*, February 2019

<sup>35</sup> [Making our voices heard. 2021-21 Annual Report and Accounts](#), Victim Support, October 2021

<sup>36</sup> [Our impact 2020-21](#), Surviving Economic Abuse, 2022

<sup>37</sup> N Sykes, [Understanding the eco-system: charities and public services](#), Law Family Commission on Civil Society, May 2022

<sup>38</sup> [The Clink Charity: an economic impact analysis](#), Pro Bono Economics, July 2020

life. Magic Breakfast provides 215,000 children with a nutritious breakfast each school day,<sup>39</sup> with evaluation estimating that this creates long-term economic value to the economy of around £9,200 per child in Key Stage 1, at a cost of only £180 per child.<sup>40</sup> In 2020-21, volunteers provided 32,000 tutoring sessions through Action Tutoring,<sup>41</sup> one of hundreds of charities offering additional support to young people facing disadvantage. Charities are major providers of in-school mental health support, such as Place2Be which delivered over 33,000 phone support sessions to families in need in 2020,<sup>42</sup> estimated to generate economic benefits of around £8 for everyone £1 spent on one-to-one counselling.<sup>43</sup> The social sector plays a major role in finding and developing teaching staff, with charity Teach First placing 12,000 teachers in its lifetime,<sup>44</sup> 3,800 teachers receiving training from the PTI<sup>45</sup> in 2019-20, and 4,600 governors trained by Governors for Schools in 2020-21.<sup>46</sup> Children's centres and nurseries across the country are run by charities, such as the 101 managed by Action for Children and the 180 operated by Barnardo's. Millions of children access after-school activities provided by voluntary organisations, such as the tens of thousands of grassroots football clubs and the 7,500 Scout groups in the UK.

The balance between whether these services are funded totally by government, or totally by philanthropic funding, or somewhere in between, can be politically fraught, but whichever approach is favoured, it is important to consider the distinctive strengths of social sector organisations which mean they are uniquely well-placed to deliver some services:

- **Trust.** Charities and community groups are highly trusted - more so than businesses, MPs, social services or local authorities.<sup>47</sup> They therefore have an ability to reach communities which might otherwise be excluded from public services, such as rough sleepers, individuals from minority ethnic groups, and the LGBT+ community.
- **Agility.** Social sector organisations can combine the nimbleness of the private sector with values that the public sector embodies to respond at speed to changing situations. During the pandemic, for example, charities were first to act to support the vulnerable.<sup>48</sup>
- **Community.** As charities are firmly embedded within the communities they operate in, they can understand and elevate the needs and views of the people who might otherwise not be heard by the state.
- **Purpose.** In contrast to profit-seeking organisations, the primary focus of social sector organisations is on delivering the best possible outcomes for the people that they serve. This does not mean that they do not contribute to growth. But their charitable objectives bind them to prioritise social impact.
- **Prevention.** Many charities focus on early intervention and preventative action in order to halt problems before they occur and save taxpayers' money in the long-term.

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<sup>39</sup> [Hidden Hunger, the state of UK breakfast provision in 2022](#), Magic Breakfast, April 2022

<sup>40</sup> J Franklin et al, [The economic cost-effectiveness of the Magic Breakfast model of school breakfast provision](#), Pro Bono Economics, 2021

<sup>41</sup> <https://actiontutoring.org.uk/>, accessed July 2022

<sup>42</sup> <https://www.place2be.org.uk/about-us/our-work/our-history/>, accessed July 2022

<sup>43</sup> R Gomez, [Place2Be's one-to-one counselling service in UK primary schools: an updated cost-benefit analysis](#), Pro Bono Economics, 2022

<sup>44</sup> <https://www.teachfirst.org.uk/our-impact>, accessed July 2022

<sup>45</sup> <https://www.ptieducation.org/about>, accessed July 2022

<sup>46</sup> Governors for schools: [Annual Report 2020-21](#), Governors for schools, September 2021

<sup>47</sup> Yonder, [Public trust in charities 2021](#), Charity Commission, July 2021

<sup>48</sup> R Macmillan, [Rapid research COVID-19: Community responses to COVID-19: communities and local authorities](#), Local Trust, February 2021



For example, charities providing respite breaks<sup>49</sup> can improve physical and mental health to such that it can lead to both fewer days taken off work and savings for the NHS as a result of fewer GP appointments. Similarly, charities providing emergency accommodation and homelessness prevention to veterans<sup>50</sup> can save the public purse by getting beneficiaries into work, reducing spending on benefits and health services. These can be both cost-effective and create better outcomes.

This combination of trust, agility, community, purpose and prevention is a powerful recipe which positions charities well to deliver many kinds of services for the public good.

## Civil society organisations campaign for social change, holding government and businesses to account and driving progress

Few of the great achievements in modern history could have been accomplished without the sustained work of civil society in raising awareness, finding solutions, galvanising support and maintaining pressure on decision-makers. Women would not be able to vote. Black and minority ethnic people would not have legal protection from discrimination. Slavery might still exist and child labour might still form part of the UK's economy. Civil society campaigners have been crucial to tackling existential threats to our planet and our way of life. To take just one example, the restoration of the ozone layer after damage caused by CFC chemicals was thanks in part to determined campaigning by charities such as Friends of the Earth.<sup>51</sup>

Similarly, few advances in health have been achieved without pressure from campaigning organisations. For example, the smoking ban introduced in the UK in 2007 is believed to have saved millions of lives. Air pollution in UK bars was reduced by 93% after the ban. In Scotland, a study showed that 18% fewer children per year were admitted to hospital with asthma in the three years after the ban. In the three months after the ban, there was a 6.3% drop in cigarette sales in England.<sup>52</sup> A 2017 YouGov poll found that the ban had influenced 14% of ex-smokers to quit, and a fifth of current smokers smoked less because of it.<sup>53</sup> It took decades of campaigning by medical professionals and charities to build the public support which eventually persuaded the government to act.

Many policymakers welcome the efforts of civil society organisations to raise issues, activate public opinion and present both challenges and solutions. But campaigning for change is understandably sometimes regarded as something of an irritant by those in power. It is indubitably the case, however, that life in the UK today is longer, healthier, safer, freer and more equal because of the efforts of civil society campaigners, past and present.

Ensuring that civil society is thriving should be a high priority for every group in society. Charities and community groups are not an adjunct to the public and private sector, they form a third pillar without which neither of the others can function effectively. Civil society delivers tangible economic benefits and fiscal savings, while also driving up wellbeing, community cohesion and combating isolation. Civil society is integral to the nation's health and wealth. It is in the interest of every business, every policymaker and every individual to ensure that this sector achieves its full potential.

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<sup>49</sup> The [economic benefits of short breaks for families of children with life-limiting and life-threatening conditions](#), Pro Bono Economics, October 2020

<sup>50</sup> [The costs and benefits of Veterans Aid's support for veterans](#), Pro Bono Economics, January 2019

<sup>51</sup> P Hart, M Compton, [Great Policy Successes](#), Oxford University Press, September 2019

<sup>52</sup> L Trevallion, [How has the smoking ban changed our health?](#) British Heart Foundation, July 2017

<sup>53</sup> P Hart, M Compton, [Great Policy Successes](#), Oxford University Press, September 2019

### 3. Productivity and effectiveness

*“All sectors are addressing productivity issues, and it’s time for the social sector to do the same. Our Commission is convinced that leadership, collaboration and a robust infrastructure are the levers which could make us more productive. These are essential if we are to meet the increasing demands from the communities we serve.” - Shaks Gosh*

#### Box 2. Productivity: Key findings and recommendations

##### Findings

- Boosting productivity has rightly been a high priority for successive governments, supported by extensive research, policy action and funding. Achieving the maximum impact possible for the available resources is also essential for the social sector.
- Charities and small businesses have much in common when it comes to the challenges of improving productivity and organisational effectiveness. But charities also encounter some specific barriers to improving productivity, which arise from the nature of their activities and funding.
- Innovation, effective use of technology, good management practices and investment in people are major factors in driving organisational productivity.
- Many charities struggle to make the most of these due to restrictive and inefficient funding; insufficient data and evidence; and a lack of effective infrastructure to spread knowledge and ideas, and connect them to specialist skills.

##### Recommendations

- A radical shift in approach from funders is needed, away from short-term funding, restrictive grants and contracts, and towards support for core costs (including those associated with property where this is integral to charities’ operations) and investment in people, processes and organisational development.
- Government and funders should work together to create a new Civil Society Evidence Organisation (CSEVO), which is essential for improving the availability and spread of evidence across the sector, reducing duplication and increasing best practice.
- UK and devolved governments should provide social sector organisations with access to and adaptations of centrally-funded productivity schemes currently restricted to businesses, and ensure these are designed and communicated effectively to support community businesses and social enterprises.
- Led by a partnership between the Department for Levelling Up, Housing and Communities (DLUHC) and the Department for Digital, Culture, Media and Sport (DCMS), the UK government should carry out a ‘root and branch’ review of local social sector infrastructure, which is the first critical step towards revitalising local infrastructure, so that it can act as a ‘diffuser’ of evidence and knowledge; and a ‘convener’ to support collaboration, networking, peer support and information exchange among local charities, as well as connecting them to specialist skills providers.
- The newly created Vision for Volunteering team, business organisations and the UK Pro Bono Network should work together to maximise the level and effectiveness of skilled volunteering, which holds huge potential.

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## Boosting productivity is a national policy priority which should extend to the social sector

Since the financial crisis in 2008, the UK's productivity has flatlined. This has prompted an enormous expenditure of time and effort on understanding the cause of the slump, as well as significant investment in policies and support to boost productivity in the private sector. These have included Local Enterprise Partnerships, Local Growth Hubs, the British Business Bank, Be the Business, Help to Grow: Management and Help to Grow: Digital. Devolved governments have also pursued policies and funding to boost business productivity, such as the Scottish National Investment Bank and Scotland's National Strategy for Economic Transformation. These policies are underpinned by a vast number of large and granular datasets,<sup>54</sup> which enable detailed and robust analysis of the problems and potential solutions.

However, civil society is almost entirely absent from this data, research and policy. It is also actively excluded from the range of networks, support and investment dedicated to improving the UK's productivity.

This is the case even in relation to measuring productivity effectively. The 2005 Atkinson Review established a framework for the measurement of productivity for large aspects of the public sector, enabling quality to be taken into account. The UK has led the world in this field. By contrast, it was only in 2022 that progress started to be made in accurately measuring the productivity of the social sector in the National Accounts, when a paper was published by independent researchers to support the government's commitment to creating a new Satellite Account to capture the value of the sector.<sup>55</sup>

The language of productivity is not often used in relation to charities, but it is vitally important to the whole sector. It is more common to discuss impact, effectiveness, performance or social value for charities, but these are all essentially describing the same thing as productivity – maximising an organisation's ability to achieve outcomes using the resources at their disposal. Improving the productivity of charities is not about a crude attempt to cut costs, increase efficiency at the expense of quality, become more 'business-like' or work harder. It is about increasing their ability to transform inputs into outcomes.

***“A productive charity is one that delivers what it sets out to deliver, and it does that with the best use of the resources that it has available.”***

*- Charity CEO*

Charities currently face a very challenging operating environment, with rising demand, rising costs but falling real-terms incomes. It is therefore more important than ever to make the best possible use of every available resource.

Small organisations often face particular challenges in tackling their productivity. Many small charities find it especially difficult to access long-term, flexible funding which would allow them to invest in their capacity and capabilities. And in organisations with very few staff, the same individual may be delivering services, fundraising, supporting other staff and volunteers, while also responsible for developing strategy and identifying improvements.

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<sup>54</sup> Source: ONS, Productivity measures:

<https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures>

<sup>55</sup> J Martin & J Franklin, Fuller Measures of Output, Input and Productivity in the Non-profit Sector: A Proof of Concept, Economic Statistics Centre of Excellence, October 2022

Many leaders of small charities say that carving out time or ‘headspace’ to think about strategy, developments or improvements is extremely difficult due to the day-to-day operational pressures they have to cope with.

## Innovation, technology, management and investment in people drive up productivity, but many charities struggle with these

Four major factors have been shown to play a role in driving productivity within individual organisations: innovation, technology, management practices and people.

**Innovation** – including the development of new services, processes, and products that can reduce costs or increase output or quality – can significantly boost productivity growth.<sup>56</sup> This can be aided by digital adoption, which can range from the use of advanced technology such as artificial intelligence, to basic digital technologies such as digital software for customer relationship management,<sup>57</sup> moving to cloud computing<sup>58</sup> or high-speed broadband.<sup>59</sup> These can all increase efficiency and release resources for more impactful activities.

Innovation can also go beyond improving what already exists. Where charities are enabled to consider more transformative, long-term and deep-seated changes to meet and overcome the challenges facing their communities, substantial change can happen. Such ‘social innovation’ has been pioneered by leaders such as Geoff Mulgan at the Young Foundation.<sup>60</sup> And though funding to support this kind of transformational imagination is particularly scarce, some funders have started to lead the way. This is discussed further below in chapter five.

Charities are generally highly innovative and creative. Over the pandemic, innovations in service delivery<sup>61</sup> fundraising methods and volunteering options<sup>62</sup> abounded. More than three in four charities tried new delivery models during this period, while almost six in ten said their appetite for innovation increased.<sup>63</sup> There has also been steady progress on digital take up in the sector.

However, there is some distance to go, and charities report being held back by skills gaps, leadership issues and under-investment. Almost half of charities are described as ‘early stage’ when it comes to their **digital** development, with just over one in ten describing themselves as digitally advanced.<sup>64</sup> Almost one in three (29%) charities rate themselves as ‘poor’ at using, managing, and analysing data, while almost half of charities (44%) also rate their ability to use data to plan services as poor.<sup>65</sup> Overall, in 2019, just over half of charities (56%) had the full suite of essential digital skills,<sup>66</sup> more than a quarter (27%) were rated as

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<sup>56</sup> National Institute of Economic and Social Research, [From ideas to growth Understanding the drivers of innovation and productivity across firms, regions and industries in the UK](#), Department for Business, Energy and Industrial Strategy, October 2021

<sup>57</sup> G Awano, [Information and communication technology intensity and productivity](#), ONS, October 2018

<sup>58</sup> Gal P et al, [Digitalisation and productivity: In search of the holy grail – Firm-level empirical evidence from EU countries](#), OECD, February 2019

<sup>59</sup> [M Molnar](#), Seizing the productive potential of digital change in Estonia, OECD, July 2021

<sup>60</sup> G Mulgan, [Social Innovation: How societies find the power to change](#), Bristol University Press, 2019

<sup>61</sup> [Service Delivery Innovation – CAFgas for Nanny Biscuit 2020 Coronavirus Relief Effort](#)

, Third Sector, September 2021

<sup>62</sup> E Avdoulos, S Whyte, K Bulutoglu & R Harries, [Understanding local patterns of volunteer activity during COVID-19](#) The Young Foundation, December 2021

<sup>63</sup> [Quarterly Covid Charity Tracker Survey results: April 2021](#), Pro Bono Economics, April 2021

<sup>64</sup> Zoe Amar, [Charity Digital Skills Report](#), 2022

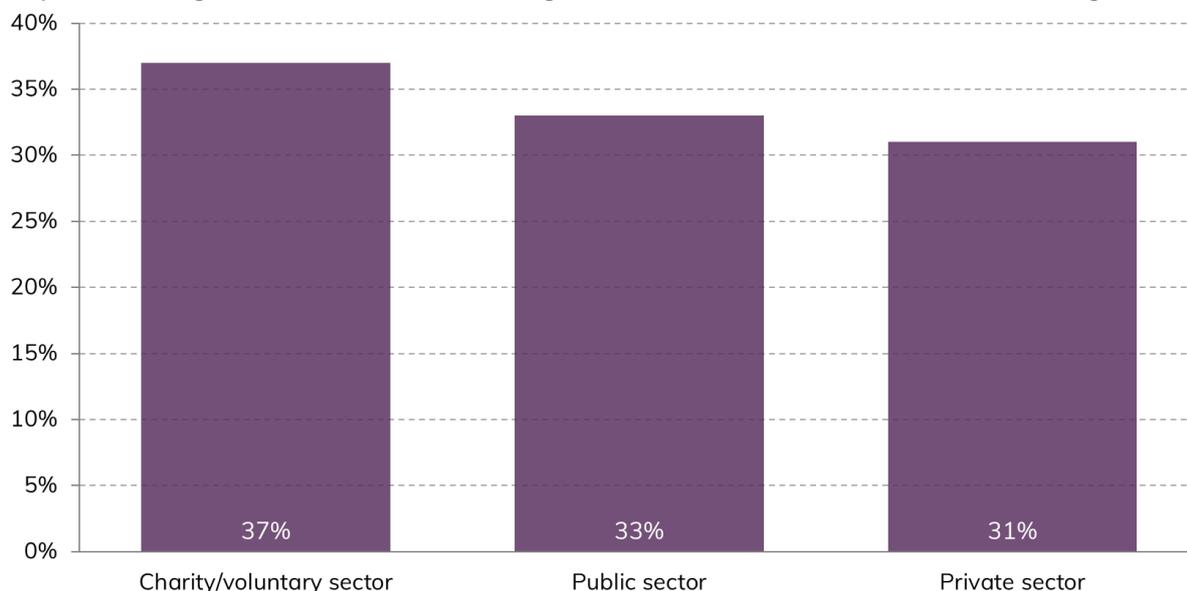
<sup>65</sup> Zoe Amar, [Charity Digital Skills Report](#), 2022

<sup>66</sup> The five categories of essential digital skills identified by the Department for Education are: communicating, handling information and content, transacting, problem solving and being safe and legal online

having low digital capability, while just over one in ten (13%) reported no digital activity. Skills were a significant barrier to making further progress, but almost four in ten charities (37%) with skill-shortage vacancies find it hard to recruit people with digital skills, slightly higher than other sectors of the economy.<sup>67</sup>

**Figure 3: The charity sector finds it harder to plug digital skills shortages**

*Proportion of organisations with skill-shortage vacancies who find it difficult to obtain digital skills*



Notes: PBE analysis of Employer Skills Survey 2019

In addition to facing skills shortages, the charity sector struggles to match workers to job roles, leading to large numbers of staff being over-qualified or under-utilised.

**Figure 4: More than half of charities have over-qualified staff and almost half have under-utilised staff**

*Proportion of organisations with staff over-qualified/under-utilised in current role*



Notes: PBE analysis of Employer Skills Survey 2019

<sup>67</sup> J Larkham, [Productivity of purpose](#), Law Family Commission on Civil Society, January 2023

Perhaps related to these challenges in making effective use of people and digital technology, there are long-standing concerns about **leadership** in the sector. Charity trustees surveyed in 2017 reported a lack of relevant legal, digital, fundraising, marketing, and campaigning skills at board level.<sup>68</sup> The sector is three times less likely to invest in leadership development than the wider economy, with an estimated average of 0.5% of annual income spent on it.<sup>69</sup> In 2019, research found that the majority of charities believe they lack a clear vision from their senior leaders as to what digital could help them achieve, and almost half (45%) say this lack of leadership is a barrier to do more with digital.<sup>70</sup>

This is a major issue, because well-managed organisations are more productive.<sup>71</sup> The quality of leadership and management explains large differences in productivity between otherwise similar organisations. Organisational management practices (such as setting targets) and HR practices (such as using high performance work systems, providing effective training, increasing diversity and supporting employees' health and wellbeing) are both important. Yet health and wellbeing can also be poor in the sector, perhaps partially as a result, which undermines productivity.

Research has also found<sup>72</sup> that the productivity challenges experienced by charities and community groups are similar to those affecting community businesses. Rising demand, rising costs and restricted income create worrying pressures both on organisational finances (with some having to rely on using reserves to cover funding gaps or closing services and laying off staff) and on wellbeing, with widespread anxiety across the sector. Like charities, community businesses cite access to funding as their highest priority in terms of support, but large numbers also want help with measuring impact; community engagement; technology and digital skills and processes; and strategic and business planning. Help with managing buildings and assets was also highlighted as a significant gap by many of those interviewed.

Meanwhile, a lack of **diversity** may also be holding back performance,<sup>73</sup> as the civil society workforce is less diverse than the UK average. In fact, civil society is a decade behind the rest of the economy when it comes to ethnic minority representation within the workforce. In 2021, the proportion of those from ethnic minority groups holding jobs in civil society was just under one in ten (9.5%), compared with a rate of 13% across the economy as a whole.

Civil society is also below average when it comes to social mobility, as socio-economic background plays a bigger role in determining someone's chances of both getting into the workforce and progressing into higher paid jobs than is the case elsewhere in the economy. Over half of all charity jobs (55%) are filled by people from more advantaged socio-economic groups, compared with just under half (47%) overall. This pattern is even more pronounced at more senior levels, with almost six in ten (58%) higher level jobs going to people from more advantaged backgrounds, and under a quarter (23%) to those from less privileged backgrounds.<sup>74</sup> In the economy as a whole, people from more advantaged backgrounds are still nearly twice as likely to fill senior roles than those from less privileged backgrounds, but the gap is somewhat smaller (52% vs 26%) than within the civil society workforce.

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<sup>68</sup> S Lee, B Harris, N Stickland, S Pesenti, [Taken on Trust: The awareness and effectiveness of charity trustees in England and Wales](#), The Charity Commission, November 2017

<sup>69</sup> [Bridging the gap in the supply and demand of leadership development](#), Clore Social Leadership, December 2016

<sup>70</sup> UK [Charity Digital Index 2019](#), Lloyds Bank, December 2019

<sup>71</sup> N Bloom et al., [Does Management Matter? Evidence from India](#), *Quarterly Journal of Economics*, February 2013

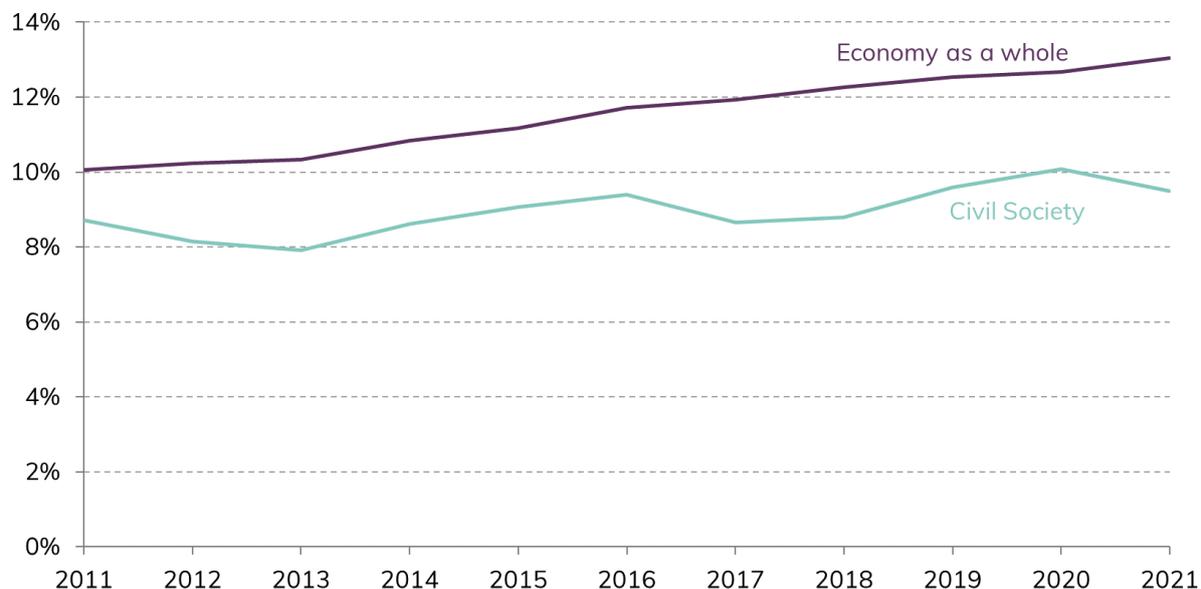
<sup>72</sup> [Community Business Market Report](#), Power to Change, 2022

<sup>73</sup> J Larkham, [Productivity of purpose](#), Law Family Commission on Civil Society, January 2023

<sup>74</sup> J Larkham, [Inequality in civil society: the data](#), Pro Bono Economics, 2022

**Figure 5: Diversity within the civil society workforce is below average for the UK economy**

*Proportion of total jobs filled by people from non-white ethnic minorities*



Notes: PBE analysis of DCMS Sectors National Economic Estimates: Employment, January to December 2011 to 2020 and DCMS Sectors Economic Estimates: Employment, January 2021 to December 2021

Low pay in the sector is likely to be exacerbating these diversity challenges, as low pay can make it particularly challenging to attract and retain skilled staff and leaders. On average, after accounting for their demographic and skills profiles, those working for charities earn 7% less than their direct counterparts in the private and public sector. This gap rises to almost 10% for those towards the end of their careers.<sup>75</sup> And this gap may well be widening further, with slower wage growth in the charity sector in 2022 compared to the private sector.<sup>76</sup>

### Charities and community businesses need better finance, evidence and infrastructure to increase productivity

Across the sector, there are initiatives aiding organisations to tackle these productivity challenges – from Zoe Amar Digital, helping organisations develop effective digital and social media strategies, to the Charity Finance Group’s programmes building financial skills. Campaign groups to improve diversity – such as Charity So White, Charity So Straight, Queer Trustees, and #NonGraduatesWelcome – have shown the power of holding individual organisations to account to raise awareness of diversity within the workforce, while various networks hold directories of approved or themed suppliers of services that can help.

Many of these efforts can demonstrate positive benefits flowing from charities improving their innovation, technology, management practices and people. What is needed now are changes which enable effective interventions to spread at scale across the social sector. This is all the more urgent as a result of the pressure many charities feel to achieve ever more within the same or declining resources, which can lead to damaging and unsustainable

<sup>75</sup> J O’Halloran, [The price of purpose? Pay gaps in the charity sector](#), Law Family Commission on Civil Society, August 2022

<sup>76</sup> M Williams, [Shared stress: uncertainty, pay and recruitment strains across the charity and private sectors](#), Pro Bono Economics, 2022

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attempts to do so by working ever harder and longer hours. This risks burnout and exacerbating the difficulties many charities already face in recruiting and retaining staff.<sup>77</sup>

Restrictive and inefficient **funding systems** are the biggest barrier to charities being able to invest both the time and the resources needed into understanding and improving their productivity. Government funding now comes to the sector primarily through commissioning contracts, which tend to come with limitations on how far charities can use them to invest in their organisational capacity and capabilities. Short-term and insecure commissioning contracts also heighten financial risk and undermine long-term sustainability and investment.<sup>78</sup> Donations from the public can be used much more flexibly in general, but the pressure many charities feel to use such donations for the ‘frontline’ is significant and counterproductive. Philanthropic grant-funding is well placed to provide balance to this and to enable charities to increase their impact. However, much of this funding is also short-term and restricted to specific activities, rather than enabling strategic investment, while inefficiencies in application and monitoring processes act as a drain on charities’ resources.<sup>79</sup>

*“I think we've got 20 [funding bids] in at the moment, that's taken hours and hours and hours and hours of work, you may get one or two of those, if you're lucky... and you have to go through the same things over and over and over again.”*

*- Charity CEO*

*“You can't deliver to your beneficiaries unless you've got a well-functioning office behind.”*

*- Charity CEO*

Charities believe that addressing the problem of restrictive and short-term funding is by far the most important intervention that could help them increase their impact, as Figure 6 shows. The nature of much – but not all - of the available funding restricts organisational capacity to work on productivity improvement, and holds charities back from drawing on external expertise or knowledge to understand their current position and how they might improve.

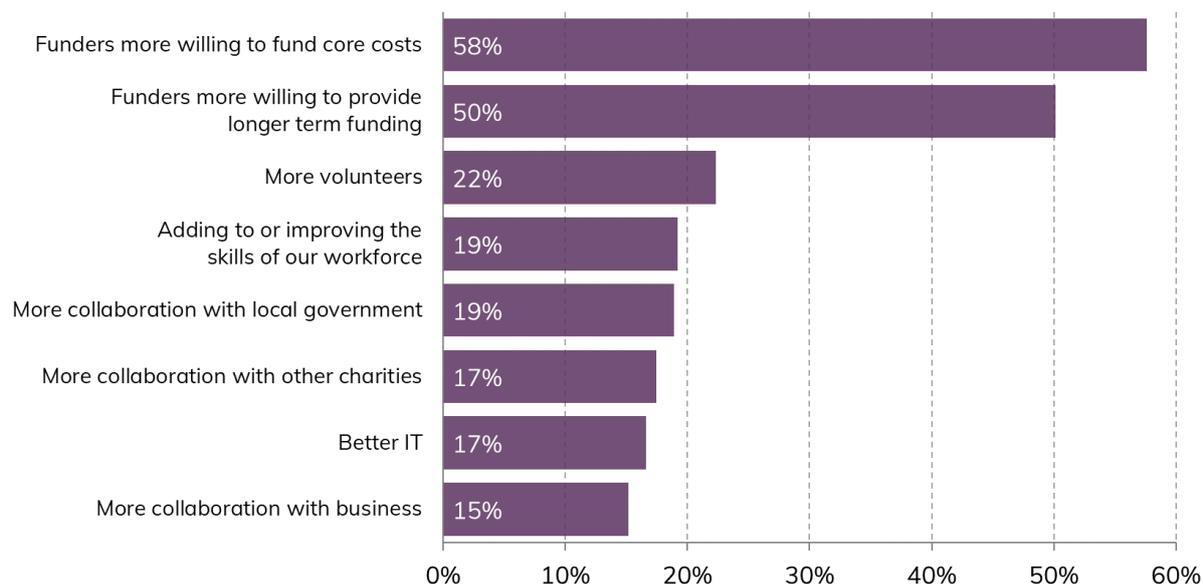
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<sup>77</sup> J Jemal et al, [Breaching the Dam: An analysis of the VCSE Sector Barometer, in partnership with Nottingham Trent University's National VCSE Data and Insights Observatory](#), Pro Bono Economics, 2022

<sup>78</sup> Frontier Economics, [The role of Voluntary, Community, and Social Enterprise \(VCSE\) organisations in public procurement](#), Department for Culture, Media and Sport, August 2022

<sup>79</sup> J Larkham, [Productivity of purpose](#), Law Family Commission on Civil Society, January 2023

**Figure 6: Charities think better funding is the key to boosting their impact**  
*Other than greater levels of funding, which, if any, of the following factors would make the biggest difference to increasing the impact your organisation has?*



Notes: N=349 senior managers or above working for a registered charity or voluntary group. Respondents could select their top three. Excludes 'Don't know' (8%), 'Other' (7%), 'Better access to advice and best practice' (4%) and 'More support to navigate regulation' (3%)

Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society. Fieldwork was undertaken 18-24 October 2021

Inefficient and restrictive grant funding creates problems for the many social enterprises and community businesses which rely in part on grants too, but these organisations also face challenges accessing other types of funding to develop their business. Research by Sheffield Hallam University<sup>80</sup> found that it was especially difficult for these organisations to access 'pre-development finance' to support planning, market testing and feasibility studies. They also highlighted the need for patient capital to support the long-term ambitions and impact that are central to many community businesses, requiring far more access to loans with realistic repayment schedules to enable them to plan, acquire assets and establish sustainable trading.

### Box 3. Case study: The Fore – Funding that supports productivity

The Fore gives seed funding, impact measurement support and skills to exciting social entrepreneurs. They invest in innovative small charities and social enterprises. Taking inspiration from the venture capital world, they fund purpose-led projects with the highest impact and growth potential. The Fore let their grantees tell them what they need funding for. Rather than offering funds for specific projects or outcomes, they aim to listen to what would be best for their growth and resilience.

Its application processes are designed to be low-resource for applicants, and to add value even for those who are ultimately unsuccessful in their funding bids. The application process requires three pages in which applicants set out what they would like funding for and why it would transform their organisation's growth, sustainability or impact. The

<sup>80</sup> J Dobson, [Community businesses and high streets: 'taking back' and leading forward](#), Centre for Regional Economic and Social Research, Sheffield Hallam University, 2022

funding is unrestricted and can be used for any purpose that will achieve this, from a new member of staff, to training or new tools.

After submitting the initial application, all applicants have one-to-one access to an expert 'Strategic Applicant Consultant'. These senior professionals assess their applications, help them test their ideas and develop their strategy. Once funding is awarded, grantees can access wrap-around skills provision through workshops, peer-to-peer networks, and bespoke impact measurement courses. They can also take up matchmaking with skilled corporate volunteers, from areas such as strategy, finance, marketing and HR.

After funding, two of the other major barriers to the social sector increasing productivity is a **lack of evidence** about what works well, and a **lack of 'diffusion architecture'** to spread knowledge and ideas – such as exists in the private sector in a number of forms, including through Be the Business, membership and umbrella organisations, and Growth Hubs.

#### Box 4. Case study: Be the Business: Diffusion architecture to spread innovation, ideas and skills

Be the Business was set up in 2017 following a review of the UK's productivity led by Sir Charlie Mayfield and Sir Richard Lambert for then prime minister David Cameron. It is funded by a combination of the UK government and leading companies such as Siemens, Amazon and McKinsey & Co.

The organisation aims to "improve the performance of small business leaders", working with successful businesses to provide small business leaders with training, support and guidance to increase their business's productivity. It does this through:

- Online support including stories, action plans and guides;
- Programmes of tailored, in-depth support for individual business leaders;
- Publishing research and studies which build the evidence base and enable small businesses to access it;
- Campaigns to spread awareness of the benefits of improving productivity.

Since its launch, more than 10,900 business leaders have taken part in programmes and 4,621 have accessed face-to-face leadership and management support. They estimate that over £350 million in value has been created through increased productivity within businesses who have taken part in their interventions.

Funding is one barrier to participating in networks which could support this, but fragmented infrastructure and damaging structures for competition are also significant. Despite recognising the value of connecting with others, charities are often inhibited from collaboration and sharing ideas and data by the perceived or real competition arising from the financial system, particularly the commissioning and delivery of public sector contracts.<sup>81</sup>

*"I think smaller charities are in danger of that competitive side, because we're all looking to the same funders... so any competitive edge you've got you don't want to share."*

*- Charity CEO*

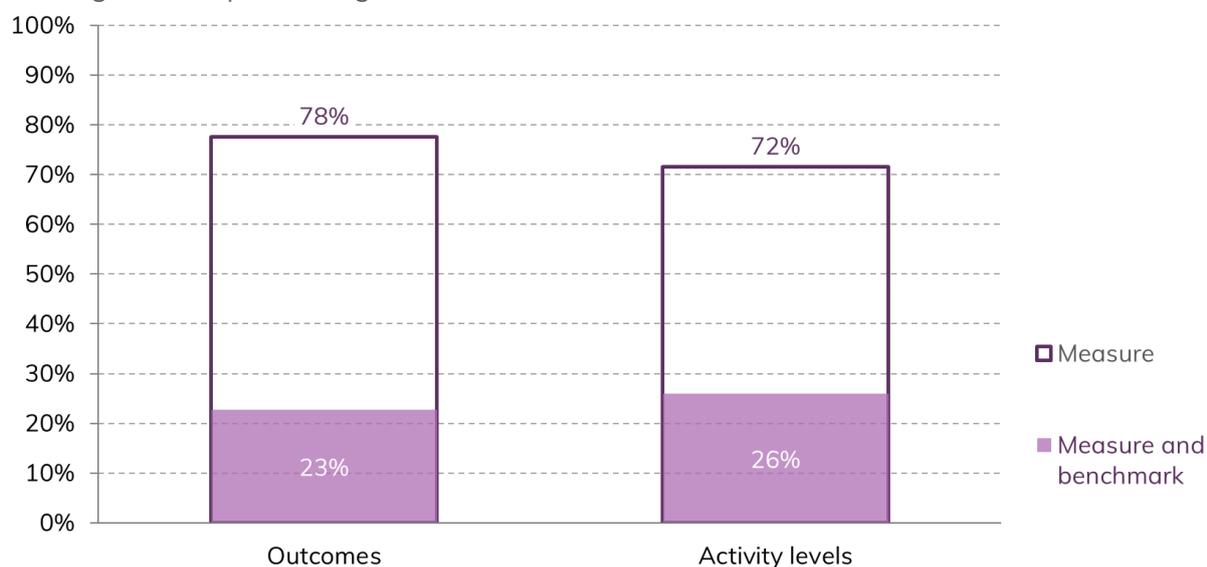
<sup>81</sup> R Young & C Goodall, [Rebalancing the relationship: final report](#). NCVO, February 2021

*“Because of contracts - this probably has been the last few years - [there is] less collaboration and sharing. Because it can be thought to be private, competitive information that people are looking at. So it is a lot more difficult to do some of that work.”*  
 - Charity CEO

This is compounded by a lack of publicly-available data to enable charities to compare themselves with their peers. Most charities measure their outcomes (78%) and outputs (72%), but very few benchmark themselves against their peers – only 23% do so in relation to their outcomes, and 26% on activity levels.

**Figure 7: Charities tend to measure outcomes and outputs, but they don't often compare them with their peers**

*Proportion of charities that measure outcomes and activity levels, and proportion that benchmark them against comparable organisations*



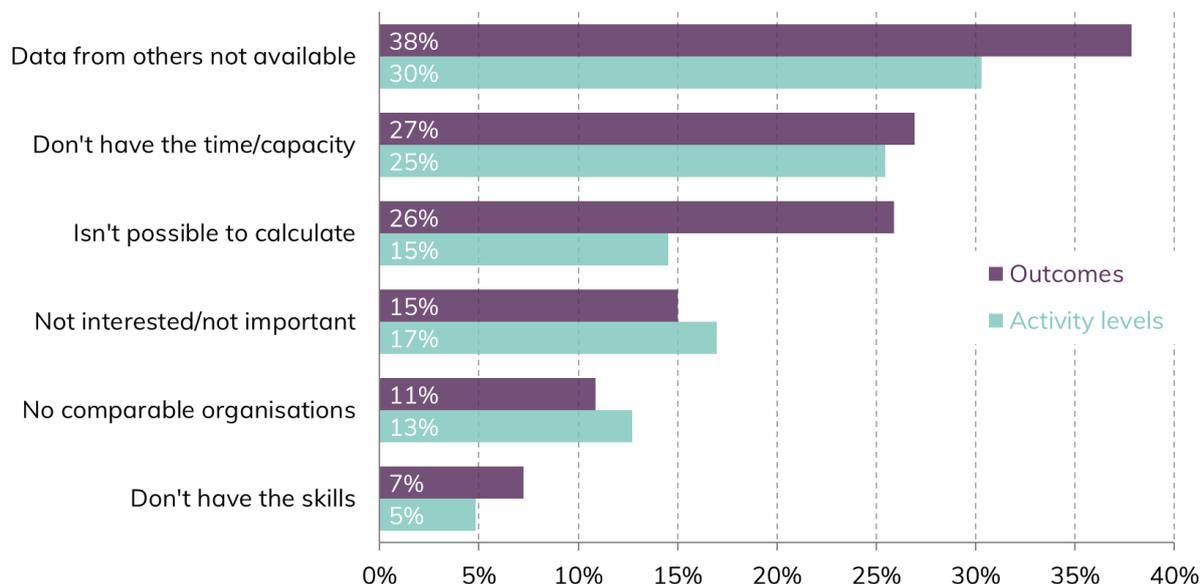
Notes: N=316 senior managers or above working for a registered charity

Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 19-27 May 2022

Capacity, cited by around a quarter of charities, (27%) plays a part in this, but the biggest barrier is a lack of accessible data to enable comparisons, with nearly four in ten (38%) naming this as a barrier to benchmarking with their peers.

**Figure 8: Insufficient spare capacity and a lack of available data stop charities from benchmarking their performance with their peers**

*Reasons why by those who measure their outcomes and/or activity levels don't benchmark them against comparable organisations (select all that apply)*



Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 19-27 May 2022

Notes: Respondents were senior managers or above working for a registered charity. For outcomes n=193, for activity levels n=165

Infrastructure organisations play a crucial role in enabling organisations to tap into networks, share knowledge and find expert support with skills or processes. In relation to business support, the UK government has invested in creating national and local support networks, drawing on evidence that “a nationally-recognised brand offering business advice through a single entity can help address problems of lack of awareness and trust in business advice”<sup>82</sup> and evaluations showing the effectiveness of some public sector and publicly-subsidised business support schemes.<sup>83</sup>

However, social sector infrastructure has seen financial decline and increased fragmentation in recent years, with funding driving a shift away from coordination and towards competition. In 2015, a review found that there was insufficient investment in local infrastructure and a lack of quality provision in many areas of England, particularly those that are more deprived.<sup>84</sup> The complexity of social sector infrastructure leads to frustration among charities that struggle to understand what support is available or how to find out.

***“You're very lucky, I must say, having to only deal with five [local infrastructure organisations]. It's 13 in Derbyshire.”***

*- Charity CEO*

<sup>82</sup> International [experience in leveraging business development services for SME productivity growth: implications for UK policy](#), OECD, September 2018

<sup>83</sup> J Larkham, [Productivity of purpose](#), Law Family Commission on Civil Society, January 2023

<sup>84</sup> Change [for good: Report of the Independent Commission on the future of local infrastructure](#), NAVCA, January 2015 <https://barrowcadbury.org.uk/news/independent-commission-on-the-future-of-local-infrastructure-final-report-says-creative-resourcing-is-needed-to-meet-future-challenges/>

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Though some efforts have been made by infrastructure organisations both at a national and local level to collaborate more closely, particularly in the wake of the pandemic, these have not been sufficient to make a real step change in the way social sector infrastructure works.

Community businesses and social enterprises might be viewed as better served in terms of infrastructure and ‘diffusion architecture’ to spread ideas and evidence, as initiatives aimed at small and medium-sized enterprises (SMEs), such as Growth Hubs, are open to them. However, many social economy businesses do not find that interventions designed for the broad span of SMEs are suitable for them, nor are they always communicated effectively to this part of the business community.

*“Business support aimed at SMEs currently does not serve social enterprises and community businesses effectively, especially in disadvantaged communities. We hear from community businesses across the country that infrastructure needs to be designed and delivered with greater knowledge of social business models if it is to increase growth and productivity in this vital sector of the economy.”*

*- Ailbhe McNabola, Power to Change*

## How to improve productivity in the sector

There are five important steps to be taken by grant-makers, business and government to improve productivity across the sector.

First, funders – in both the social sector and in UK, devolved and local government – should **shift funding away from short-term, restrictive grants or contracts, to supporting core costs (including those costs associated with property integral to charities’ operations) and investment in people, processes, and organisational development.** This would allow charities to increase their impact by providing the freedom and capacity they need to seek out long-term improvements. At a local level, this shift in funding approach should also be accompanied by the development of local strategic partnerships (discussed further below) aimed at improving collaboration between local government and civil society, focused on shared goals and promoting partnership, rather than competition between charities.

Second, **the creation of a new CSEVO as a joint venture between government and the sector.** This organisation is needed to generate, collate, and share evidence about how charities can be most productive. By advising and training charities in how best to find and make use of evidence about what works in their practice areas, and by providing a brokerage service to connect organisations to the best evidence and research for their work, it would reduce duplication and improve effectiveness.

Researchers and the government should also work together to extract data from charities participating in national surveys and combine these with administrative datasets in order to create interactive benchmarking tools relating to markers of organisational productivity, such as innovation, tech adoption, skills and training and management practice. These tools would help provide organisations with the data they need to challenge themselves, and could be promoted by the Charity Commission to trustees in order to drive good stewardship.

Third, **charities should be given access to practical support by opening up and adapting existing and future UK and devolved government productivity schemes** - such as Help to Grow – to the social sector. Improving leadership skills and enabling adoption of digital technologies like CRM software and e-commerce – as these schemes are designed to do –

should be a no-brainer. Similarly, **such schemes need to be designed and communicated effectively to meet the needs of community businesses.**

Fourth, the government should undertake a **‘root and branch’ review of the provision of local social sector infrastructure**, to revitalise and consolidate what exists. This should build on learning from experience, both in relation to existing social sector infrastructure and business-focused interventions, such as Growth Hubs and Be the Business. If this infrastructure were stronger and less fragmented, it would be able to act as a more effective ‘diffuser’ of evidence, knowledge, and information from the CSEVO and other productivity-focused initiatives to local charities, and a more effective ‘convener’ to support collaboration, networking, peer support and information exchange among local charities.

Finally, the Commission welcomes the Vision for Volunteering plan published in May 2022,<sup>85</sup> and the subsequent government funding allocated to enable the sector to turn it into reality. As part of this work, **the newly-created Vision for Volunteering team should work with business organisations and the UK Pro Bono Network to maximise the level and effectiveness of skilled volunteering.** Research by Pilotlight<sup>86</sup> has found that around 6 million employees use their professional skills in voluntary work (21% of the workforce), with at least 8,300 charities and social enterprises benefiting from such pro bono support. More than three-quarters of employees believe that employers should support staff volunteering (77%) and that businesses benefit from doing so (79%), with businesses themselves reporting that supporting employee volunteering increases their employees’ wellbeing, boosts retention and staff loyalty and supports recruitment.

#### **Box 5. Case study: Scottish Tech Army (STA) and the power of skilled volunteering**

STA was created during the Covid pandemic to mobilise the tech community in Scotland for the benefit of people and communities in Scotland. They have recruited over 2,200 volunteers who have so far worked with more than 300 organisations. Examples include supporting small grassroots charities, such as the Boggall Drop in Centre in West Lothian, which wanted to develop a new website to help its community know about their services but did not have the in-house IT expertise to build or maintain it. The STA worked with the charity to understand the challenges and scope out the project, bringing skilled volunteers to work with them to design the new website and teach them how to maintain it.

As well as carrying out such projects with individual charities, STA has also set up the Tech for Good Alliance, with the support of tech giants such as Microsoft Philanthropies and JP Morgan, which aims to create “a collaborative ecosystem for the leading tech and tech-related companies in the UK, providing a mobilising framework within which they can engage and collaborate to create social benefit and impact at scale”. Industry leaders, such as Barclays have already joined the Alliance. Working in this way helps companies to fulfil their Environmental, Social and Governance (ESG) commitments and enables individual charities to access the skills they need for their own organisation, as well as to tackle digital exclusion in the communities they serve. The Alliance is also creating an open-source repository, enabling the tools and datasets created by specific projects to be used more widely across the sector.

<sup>85</sup> [Vision for Volunteering](#), 2022

<sup>86</sup> [Give your culture a workout: a report on the business benefits of supporting employees to use their time and skills to support charities and causes](#), Pilotlight, October 2022

The funding to support some of these recommendations - such as the creation of the new CSEVO and reviving local infrastructure - should combine a number of sources, including philanthropy, grant-funding, business support and government finance. This funding should include drawing on the £380 million<sup>87</sup> that the social sector currently misses out on due to Gift Aid unclaimed by charities.

Combined, these steps would help to ensure that more people are supported more effectively by the social sector. More of society's problems would be stopped before they occurred, as social sector organisations would be better able to focus on prevention, rather than on dealing with the consequences once problems have occurred. The voices of people most in need of support would be lifted more effectively, as the sector would be more diverse and representative. And when crises occurred, whether for individual families or entire countries, they would be dealt with more effectively as the social sector would be more resilient, responsive and better-led.

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<sup>87</sup> A Kenley, J O' Halloran, K Wilding, [Mind the giving gap: unleashing the potential of UK philanthropy](#), Law Family Commission on Civil Society, December 2021

## 4. Measuring what we value

*“Good data can make the difference between success and failure. In health, good data regularly makes the difference between life and death. In the social sector, better data could help drive a revolution in service delivery and social impact in our communities.” – Nancy Rothwell*

### Box 6. Data: Key findings and recommendations

#### Findings

- Data is vital to inform good decision-making within the social sector and among the funders and policymakers who influence it. However, currently, when data is most needed - such as during the Covid pandemic - it is too often inaccessible or unavailable.
- More timely and accessible data on social sector health, demography, capacity, contribution and volunteering is needed.
- Three kinds of data are important in achieving this: data about the sector (to provide a picture of its nature and development); data for the sector (to enable it to target and evaluate its activities); and data from the sector (to enable policymakers, the public, funders and beneficiaries to understand its activities and outcomes).
- The Commission is ambitious about improving social sector data. The benefits of getting it right are significant, and there is much useful learning from other sectors to support the endeavour.
- There have been significant advances on social sector data during the life of the Commission. Progress is being made within the sector, such as the work of 360Giving and this has been complemented by action among policymakers. Most notably, the government's commitment to create a civil society satellite account and joint work between the social sector and DCMS to develop a shared data strategy.

#### Recommendations

- The social sector must give more priority to its own data infrastructure. More charities should grasp opportunities to improve their collection and use of data; share the data they already hold, to increase evidence about what works and help them benchmark against peers; and commit to ethical use of data by committing to voluntarily apply the Office for Statistics Regulation's (OSR's) Code of Practice for Statistics where relevant.
- Funders should encourage and support charities to collect, use and share high quality data. They should also share their own data and engage with initiatives such as 360Giving and independent benchmarks such as the Foundation Practice Rating.
- As part of a campaign to accelerate the partnership between the private and social sectors, businesses with staff skilled in data collection and analysis should be actively encouraged to seek out opportunities to share these skills with charities.
- UK and devolved governments should play a coordination and leadership role on social sector data, including by delivering the promised Civil Society Satellite Account, creating more data labs, and working with the sector to extract the data held about charities across national surveys and administrative records for use by both policymakers and the social sector itself.

## Data drives decisions: without it we cannot understand our world or make the right choices to improve it

When the UK's new National Data Strategy was announced at the end of 2020, the then Secretary of State for Digital, Culture, Media and Sport explained its importance, saying "data is now the driving force of the world's modern economies. It fuels innovation in businesses large and small and has been a lifeline during the global coronavirus pandemic."<sup>88</sup>

When considering civil society, there are three kinds of data that make up that 'fuel' which has the ability to power insight, impact and innovation:

- Data **about** the sector: to provide a picture of what the sector consists of and how it is changing;
- Data **for** the sector: access to data that allows the sector to target, evaluate and adapt its activities;
- Data **from** the sector: information produced by the sector about its activities and impacts, to enable policymakers, the public, funders and beneficiaries to understand what it is doing, what it achieves, and to gain insights into the needs of beneficiaries and the impacts of social and economic changes or policies.

The Commission has seen significant progress in relation to each of these, but there is still more that can be done. As Ed Humpherson, head of the OSR, puts it:

*"Civil society is important to policy and important to citizens. For policymakers, civil society acts as a glue that holds communities together. It is an essential building block for societal wellbeing. For citizens, the narrative is less fanciful: people can plainly see the tremendous work done by civil society. Many of us donate or volunteer our time, and many more benefit directly from the work these organisations do. But for citizens and policymakers alike, the absence of data about civil society means there is a significant gap in our understanding of what is happening, how organisations are faring, and where resources are needed most."*

When it comes to problems with data about the sector, one key example is how it is treated in the UK's National Accounts, and the value that is assigned to it within that framework. Six months after the announcement of the National Data Strategy, Andy Haldane, former Chief Economist at the Bank of England, gave a speech in which he declared that the contribution of the social sector to the UK is "systematically and significantly underestimated in our National Accounts, under-appreciated in our public discourse and under-represented in our public policy discussion."

Haldane argued that the estimated value of the social sector in the National Accounts was a fraction of its true weight, and that this contributed to the sector being overlooked by policymakers at all levels.

The National Accounts are intended to provide a description of the economic activity within the country, but it significantly undervalues the value of civil society. Research for the Commission found that including the contribution of volunteers and taking account of low

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<sup>88</sup> National [Data Strategy](#), Department for Culture, Media and Sport, December 2020

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pay in the sector added 60%-80% to the value ascribed to the social sector<sup>89</sup> in the National Accounts, an additional £22.3 billion.<sup>90</sup> This is still an underestimate, as the value created by the sector's activities is often far greater than the cost to funders. A charity that successfully improves children's educational attainment, young people's mental health or reduces reoffending, creates value by increasing employment rates and earnings among its beneficiaries, which raises tax revenues and enables them to contribute to other parts of the economy through buying consumer goods and services and creating jobs. The National Accounts do not recognise this for the social sector.

However, underestimating the true value and size of the social sector is only one of the reasons to be concerned about the inadequacy of data about it. Data not only influences the value and priority ascribed to the sector, it also underpins decision-making by charities themselves and by funders and policymakers. Without timely and robust data, the government cannot develop effective strategies to enable the sector to maximise its potential or harness its power most efficiently to deliver national goals. Without data, social sector organisations and funders are stuck making decisions in the dark. They are unable to see clearly where resources are most needed, where they are used most effectively, and which places, people and purposes are desperately in need of more or different support. Currently, identifying unmet need and service gaps is incredibly difficult because it is not clear where charities are operating or what they are doing.

During the Covid pandemic, the Business Impact of COVID-19 Survey provided fortnightly estimates of how many real estate businesses had staff on furlough, how long their cash reserves would last and how their profits were faring. Official statistics about the social sector were not expected to become available until at least 18 months later. Emergency support for the social sector had to be designed in a vacuum because there was no up-to-date or comprehensive data showing the size, shape and distribution of the sector, let alone how it was being affected by the crisis.

The second area in which data is vital is to understanding how a sector is developing over time and judging its performance and needs. When the seminal Atkinson Review led to an overhaul of the methods by which the public sector's productivity was measured, it concluded that the public sector's productivity had grown between 1997 and 2016. The previous measurement approach had incorrectly indicated that it had fallen.<sup>91</sup> Without any similar official measurement of the social sector's productivity, it is not possible to know how it is performing overall – let alone how some parts of it are performing compared with others.

This is critical because the services provided by social sector organisations can often make the difference between life and death, between a bright future or a downward spiral, between a safe place to live or the insecurity of homelessness. As noted above, charities are central to delivering services across health, care, education, justice and many other areas. They are particularly important in driving innovation and providing preventative services, as well as supporting people in crisis. This makes it all the more troubling that there is so little data available to enable robust assessments of impact or compare the relative efficacy of different approaches. Charities themselves, their funders, commissioners, taxpayers and

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<sup>89</sup> This research does not cover the whole of the social sector, but rather the organisations currently identified by ONS as Non-Profit Institutions serving Households. The value would be still higher if social sector organisations not currently included in this definition were added.

<sup>90</sup> J O'Halloran, [Double or nothing: Charities may be more than twice as valuable as first thought](#), Pro Bono Economics, 2022

<sup>91</sup> R Heyes, [Learning the Lessons from the Atkinson Review](#), Economics Statistics Centre of Excellence, July 2019

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donors all have a vital interest in understanding the impact of the social sector's work and identifying innovations which can be spread to improve outcomes more widely, or use resources more efficiently.

Third, the geographical distribution of the sector and its activities is important, alongside trends over time. When Canada introduced better measurement of its non-profit sector, it discovered that the sector represented 8.5% of national GDP, but 12.3% of the economy of Nova Scotia.<sup>92</sup> Local leaders need to know the relative size, distribution and impact of different aspects of their local economy, labour market and service provision if they are to have any hope of improving living standards for their residents and narrowing regional inequalities in health, wellbeing and productivity.

### More and better data would support greater impact

The Commission's research has uncovered strong demand for more and better data about the social sector among policymakers, funders and charities themselves. There is widespread frustration related not only to the amount and type of data available, but also with the long time lags before much of the existing data appears and its inaccessibility. There are five areas in which there is a particularly urgent need to improve data and insight.

First, demography: the size, scope and composition of the social sector. It is striking that DCMS only recently included civil society in the publication of business demographics for all the sectors it is responsible for. Despite this progress, there is still a basic need for descriptive statistics about the sector – how many organisations it contains; where they are; what they do; how many opened, closed or merged; whether they grew or shrank.

Second, capacity: the scale of resources that organisations can deploy. Understanding the sector's funding, assets, expenditure, workers and volunteers is vital, but currently extremely difficult. There is demand for data about the different sources of funding for the sector, how these change over time and how this funding is used.

Third, financial health: how sustainable and resilient the social sector is. The financial viability of social sector organisations is naturally important to the individuals and communities they support. It is equally important to the public bodies which rely on them to provide services and to the policymakers whose goals – from levelling up to improving health and upskilling the workforce – will fall flat without thriving charities able to play their full part. Data on financial health is especially important to funders, for due diligence; to judge the success or otherwise of their funding strategies; and to identify risks to manage and gaps to fill. Similarly, better data on financial health can help inform how the sector can become more sustainable, the returns on different kinds of fundraising, what forms of finance can fuel growth, and the reserves and debts held by social sector organisations.

Fourth, contribution: the value or impact of the social sector. This goes to the heart of the Commission's endeavour to unleash the full potential of the sector. It starts with seemingly basic questions, such as how many people depend on the sector's services, how this varies across different groups, service types and places, and how much it contributes to public services. More fundamentally, it involves better measurement of the economic and social value created by the sector. This would then enable the public, policymakers and funders to make informed judgements about the use of scarce resources, investing where it will achieve

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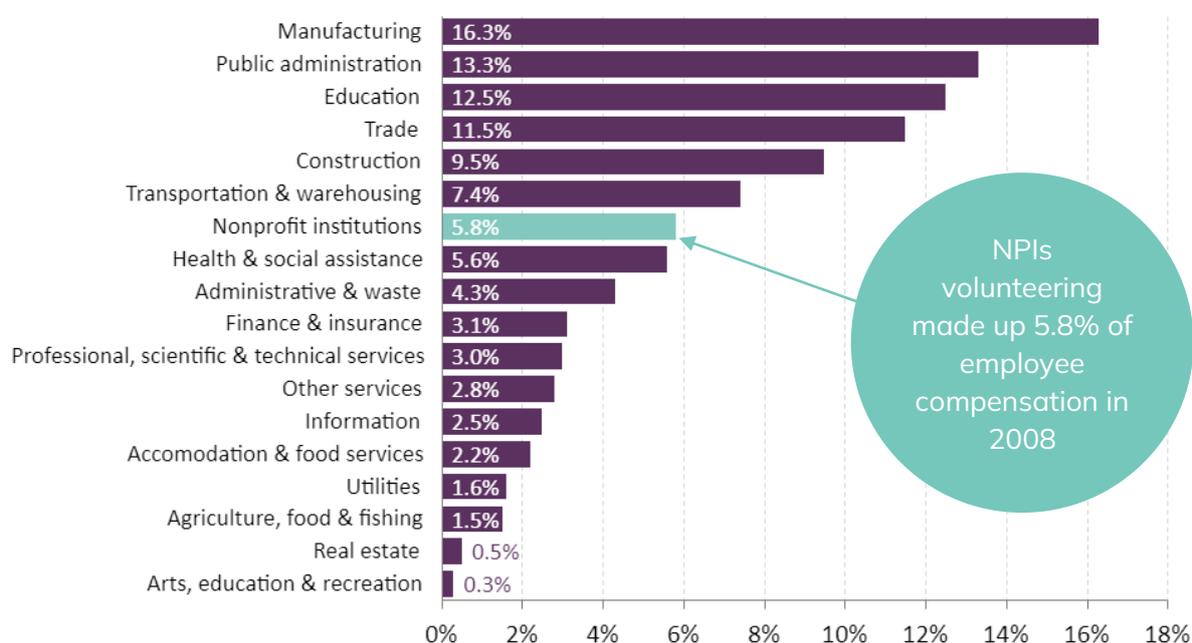
<sup>92</sup> A Kenley, [Taking account: The case for a establishing a UK social economy satellite account](#), Law Family Commission on Civil Society, July 2021

the most good, and being assured that funds are achieving what was intended. This data would also allow a more sophisticated approach to blending different kinds of finance. For instance, in areas targeted for 'levelling up', how philanthropic funding can help to leverage in private investment and increase returns on public investment.

Despite its leadership in relation to measuring productivity and the value of the public sector, the UK has been a laggard in relation to accurately measuring the value of its civil society. Globally, 28 countries have already produced a non-profit and volunteering satellite account, and 10 more have committed to doing so. Countries as disparate as Canada, Mexico, Brazil and Belgium have done so, while the Johns Hopkins Center for Civil Society Studies used the findings from these satellite accounts to build a global picture of civil society.<sup>93</sup>

**Figure 9: Mexico's satellite account enables better measurement of the economic value and contribution of its non-profit sector**

*Employee compensation, NPIs vs selected industries, including volunteers, Mexico 2008*

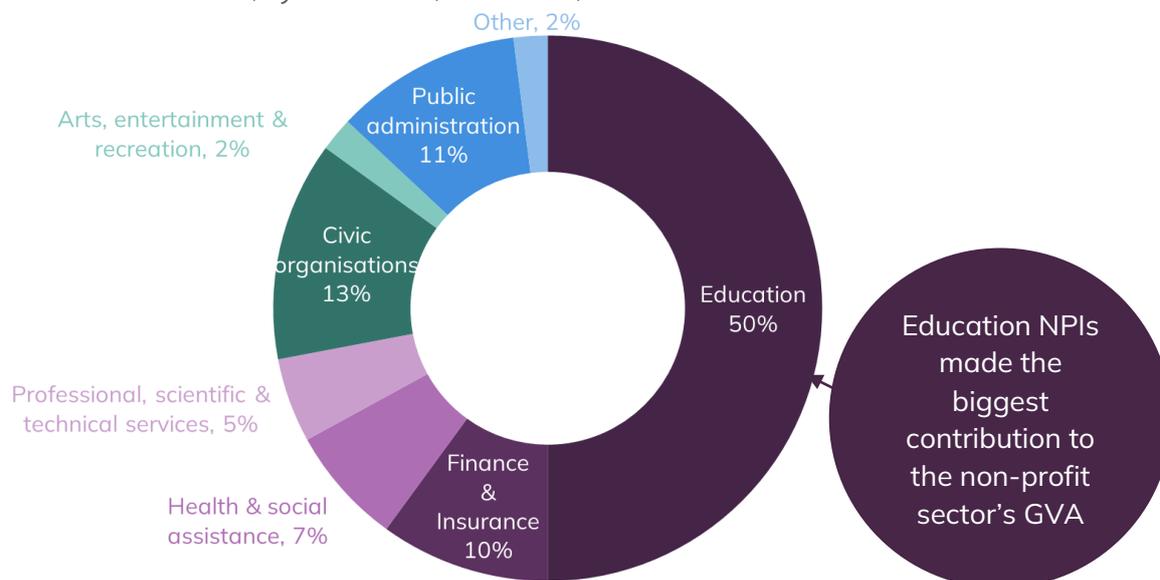


Source: The Mexican non-profit sector in comparative context, 2012

<sup>93</sup> L Salamon, W Sokolowski, M Haddock & H Tice, [The State of Global Civil Society and Volunteering: Latest findings from the implementation of the UN Nonprofit Handbook](#), Johns Hopkins University Center for Civil Society Studies, Comparative nonprofit sector working paper no. 49, March 201

**Figure 10: Mexico's satellite account also enables a better understanding of the non-profit sector's make up**

*Distribution of NPI GVA, by sub-sector, SNA basis, Mexico 2008*



Source: The Mexican non-profit sector in comparative context, 2012

Fifth, volunteering and participation: who gets involved, where, when and how. Around 28 million people volunteer in England alone, but the nature of volunteering is highly variable. This figure includes the 14 million people undertaking formal volunteering each year, as well as the many more undertaking informal volunteering, which is very different. There is regular and ad hoc activity, and volunteers are not evenly spread across different groups in the population or places in the country. The demand for data about volunteering covers these descriptive facts – how many, who, where, how often and doing what. But there is also increasing demand for a greater emphasis on what volunteers achieve, whether they are working where they are most needed, and how well they are supported. As is the case in relation to the other themes, understanding trends over time is as important as an up-to-date picture at a point in time. Finally, there is also a need for data about the costs of volunteering and what kind of management and organisation is required to ensure their contribution is as effective and valuable as it should be.

Across all these different areas, data is needed from both a macro and a micro point of view. Policymakers and sector leaders need to understand the picture for the sector overall. Individual charities need access to data so that they can understand their own impact and performance, compare themselves against their peers, and identify their own strengths and areas for improvement. Funders need both macro and micro level data to consider where their resources are best directed and how they are performing, and to understand variations among the charities they fund. Data is a vital factor in unlocking even greater impact and driving up productivity, as discussed in the previous section.

### Improvements are underway, but more is needed

There has been growing momentum behind action to fill these data gaps during the life of this Commission, and with the support of the Commission in a number of instances. Initiatives from within the sector have made significant strides forward. 360Giving has created a platform for funders to publish grant data and the tools to enable analysis to

understand how grants are being distributed and inform future funding strategies. Organisations such as Datakind and the Data Collective have been working to increase skills and capacity within the sector to collect and use data effectively. Nottingham Trent University has also established the National Voluntary, Community and Social Enterprise (VCSE) Data and Insights Observatory to work with organisations across the UK to capture data about the management, delivery, and outcomes of the sector. One of its first initiatives has been to launch, with Pro Bono Economics, a new quarterly VCSE Sector Barometer survey to capture the impact of the cost of living crisis on charities.

### **Box 7. Case study: The 360Giving open data standard**

360Giving's approach to collecting social sector data offers a model for how standardisation can work, both in terms of the standard itself and leadership by the sector. The development of an open standard for reporting grant-making data has enabled the comparison of funders, aggregation of data for local or sub-sectoral analysis, and line-by-line reporting for grant-making organisations. The use of unique identifiers is central to the standard. Many services now use grants data from 360Giving, such as CharityBase, while researchers are increasingly using the data as well.

Meanwhile, the government has also taken steps to improve data about the sector, following the Commission's early work to establish the gaps and propose solutions. DCMS has drawn together organisations from across the sector to develop a data strategy, working collaboratively to establish the range of needs and agree priorities. The Charity Commission has also committed to improving the coverage and accessibility of the data it collects about the sector, with the recent publication of a new question set for Annual Returns, which is a step forward.<sup>94</sup>

Most importantly, in February 2022, as part of the Levelling Up White Paper, the government announced that it would work with the Office for National Statistics (ONS) to take forward the Commission's recommendation to establish a new civil society 'satellite account' to better capture the value of the sector.<sup>95</sup> This satellite account will sit alongside the National Accounts, joining previous satellite accounts focused on the UK's environment and its tourism sector.

Incorporating measurement of this element of the value created by civil society requires investment in data about charities' impact. Data labs are one of the most important tools to facilitate this. Data labs bring together large amounts of data and allow organisations to compare outcomes for the individuals they support with the journeys of people who are similar to them.

The most well-known in the UK is the Justice Data Lab, which is run by the Ministry of Justice (MoJ) and is a free service for organisations that work with offenders.<sup>96</sup> These organisations can provide details of the offenders they have worked with to the MoJ and receive in return a report with the reoffending rate, frequency of offending, and time to reoffending for the group the organisation has worked with, compared to a matched control group of offenders with similar characteristics. The difference in outcomes between the two groups is a measure of

<sup>94</sup> H Stephenson, [Your role in improving charity data](#), The Charity Commission, March 2022

<sup>95</sup> Levelling [Up the United Kingdom](#), Department for Levelling Up, Housing and Communities, February 2022

<sup>96</sup> R Piazza et al, [Data labs, a new approach to impact evaluation: an update from NPC](#), NPC, 2019

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the impact of the programme being assessed and provides far more robust and powerful evidence than most service providers can otherwise access. The data lab gives civil society service providers (as well as those in other sectors) insight into the effectiveness of their work, and allows policymakers to compare the impacts of different types of services and identify the most effective or promising approaches to rehabilitation. A new Employment Data Lab has also recently been launched, but there is an urgent need to expand existing data labs and create new ones so that charities and other service providers can understand their impact and to provide more and better outcome data to support a more accurate valuation of the sector as a whole.

Alongside gathering new data and improving measurement methods, there is also a wealth of data about the sector already held in surveys and administrative data but inaccessible to either the sector itself or to policymakers. National surveys, such as the UK Innovation Survey, Employer Skills Survey, Management and Expectations Survey and Digital Economy Survey, and administrative data held by HMRC and other government bodies include charity data, but this is not yet made available in a useable form.

### How to measure what we value

There are a number of steps which can be taken to improve the data by, for and about the sector.

Creating better data starts with the social sector itself, with more charities collecting data and improving its quality. Those charities which already collect or analyse data to evaluate or inform their activities should make this more easily available to others who could also benefit from it and benchmark against it, and should engage with initiatives to measure and communicate their impact. It is also important that charities use data, statistics and evidence responsibly in order to maintain trust. The Commission is recommending that **all relevant charities voluntarily apply the OSR's Code of Practice for Statistics**.

Funders can play a major role in encouraging, funding and supporting charities to collect high quality data, use it effectively and share it with others. They often hold significant amounts of data which could be of great benefit to others, and **more funders should engage with initiatives such as 360Giving and with independent benchmarks** such as the Foundation Practice Rating.

The growing number of businesses eager to pursue purpose as well as profit are an underused resource to support the advancement of data from and for the social sector. Many businesses are supportive of employee volunteering and have staff who are extremely skilled in data collection and analysis, but they do not always connect these two. Organisations such as Pilotlight and DataKind work to support the sharing of professional skills which can transform charities' ability to collect and use data. Engaging with pro bono volunteering organisations focused on data use should be a part of the campaign business groups launch to support social sector productivity, discussed above.

To improve data for the sector, civil society organisations, their beneficiaries and those that fund and work with them would greatly benefit from the **release of data held about charities across national surveys and administrative records**, in a timely fashion and accessible format. The ONS should take a lead on this, partnering with DCMS and the Charity Commission to continue driving forward a coherent data strategy. **Expanding existing data labs** and investing in more of them would help create a step change in the

ability of the sector to robustly measure its impact in service delivery. This would enable better decisions by charities, funders and policymakers. It would also help them maximise value for money and drive both innovation and the spread of effective approaches (supported by the CSEVO proposed above).

The most important step forward to improve data about the sector is the **delivery by the UK government and ONS of the promised civil society satellite account**, with the most comprehensive possible picture of the sector's value. Alongside this, to create a more accurate picture of the sector, new and better data is required about the impact of the sector's activities, the value of charities services to their beneficiaries and the significant 'spillover' benefits to wider society. More comprehensive and robust data about these types of benefits are necessary to fully capture the value of the sector.

Combined, these steps would help to ensure that people receive better targeted, more effective support from the social sector when they need it, wherever they are in the country. Better decisions about policies, investment, funding and prioritisation would be able to be made across a huge range of issues, benefiting both beneficiaries and taxpayers. And there would be greater trust in charities overall.

## 5. The finance landscape

*“We strongly believe that unrestricted funding and simple application processes are key to unlocking the immense potential of small charities. Having highlighted that £900 million is wasted on completing funding applications, there is no doubt it would be transformational to productivity in the sector if more grant funders were to listen.” – Mary Rose Gunn*

*“Outcomes-focused and programmatic restricted funding are an important and growing part of the funding landscape, but the Commission is absolutely right to focus on the need to grow the provision of unrestricted, multi-year grant funding. This is critical to enable organisations to function more effectively, and develop their capabilities.” – Sir Harvey McGrath*

### Box 8. Finance: Key findings and recommendations

#### Findings

- Civil society relies on funding from a range of sources, including government, the public, the private and voluntary sectors.
- Philanthropic and grant funding have become increasingly important to the social sector, and are especially valuable because they enable innovation, risk-taking, patient experimentation and organisational development.
- Improvements in the level and distribution of philanthropy and grant-making would strengthen civil society immensely. Incremental changes, significant shifts in processes and truly transformational approaches are all important.
- An additional £5 billion per year could be raised from public donations if the UK matched other leading countries.
- The current distribution of philanthropy and grant-giving reinforces geographical and social inequalities, but there is enormous scope for redressing these imbalances.
- Short-termism and inefficient processes undermine the impact of some grant-making.

#### Recommendations

- As part of a radical shift in their funding, more grant-makers should offer long-term, flexible funding, invest in building charities' capabilities, and streamline their application and management processes. They should be encouraged and supported in this by the Charity Commission, infrastructure bodies and independent benchmarkers, making this core part of how charities operate a priority.
- The UK government should make use of the power it has to boost philanthropy, starting with the appointment of a Philanthropy Champion and a 'leveraging philanthropy' drive across Whitehall.
- Local authorities and mayors should appoint local philanthropy champions, working with them to draw funding to those places which need it most, for instance through match-funding schemes.
- National and regional policymakers should also increase access to other forms of finance, such as community shares and social investment, particularly for community businesses, and ensure the sector is equipped to make use of these income streams.
- The Financial Conduct Authority (FCA) should use its powers over the relevant curricula to require both qualified and qualifying financial advisors to receive training on philanthropy and impact investing, as part of its work on ESG and the Consumer Duty.

## Civil society relies on a mixed economy of funding types and sources

Civil society has always relied on a mix of funding from the public, government, the private sector and the voluntary sector. Funding from across these sources is broadly divided between earned income (from contracts or sources such as charity shops) and voluntary income (from grants or direct public donations), with a small portion coming from social or other kinds of investment.

**Figure 11: Charities rely on a mixed economy of finance**

Sources of charity income in 2019-20



Notes: 'Public giving' includes voluntary donations and legacies, 'Earned from public' relates to income from sources such as charity shops, 'Other earned' includes earned income from the voluntary and private sector

Source: NCVO Civil Society Almanac 2022

The type of funding that the sector receives varies according to the source. Most strikingly, three-quarters (75%) of the funding received from government comes in the form of earned income from contracts, with only a quarter being grants. One concern raised through research by charities taking on government contracts is the high proportion which report having to 'subsidise' the work through other income, because the contract payments do not cover the full cost of the activities delivered.<sup>97</sup>

***"Charities bring unique value to public services, yet two-thirds aren't paid enough to cover their costs – a situation which could be dangerously unsustainable as inflation pushes charity finances to breaking point."***

- NPC

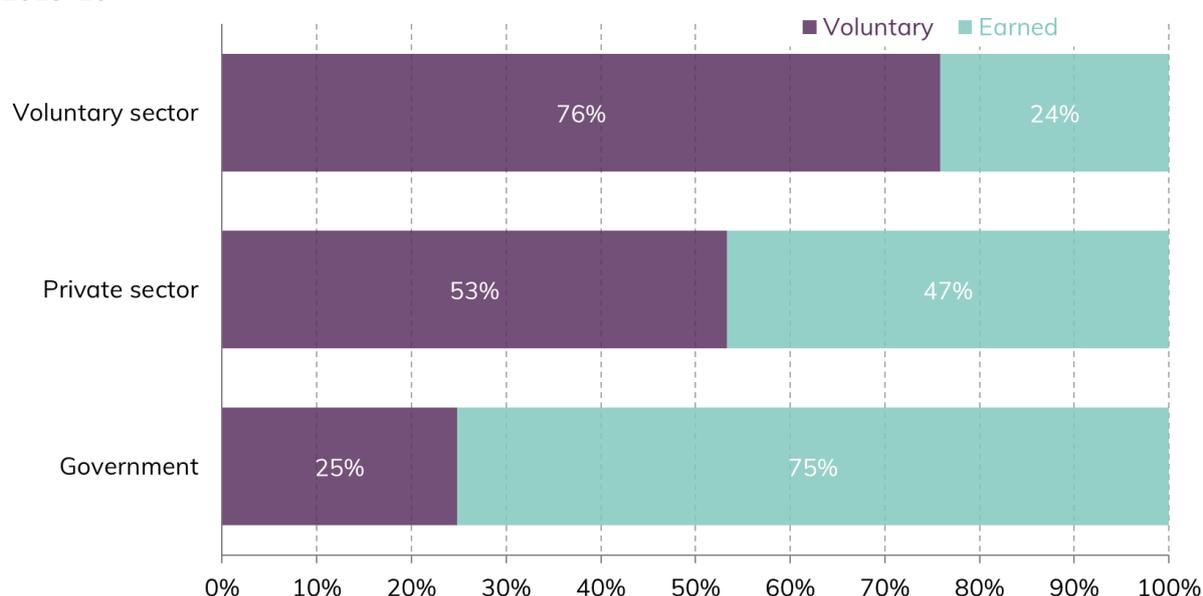
By contrast, income from within the voluntary sector is overwhelmingly given as grants, rather than through contracts, as Figure 12 shows.<sup>98</sup>

<sup>97</sup> T Clay et al, [State of the sector 2020, where we stood as the crisis hit](#), NPC, 2020

<sup>98</sup> H Barnard & M Williams, [Making it count: overcoming the barriers to better grant-making](#), Law Family Commission on Civil Society, December 2022

**Figure 12: Income from the voluntary sector is far more likely to be given in the form of grants**

*Voluntary versus earned income as a proportion of charities' total income from selected sources, 2019-20*



Source: NCVO Civil Society Almanac 2022

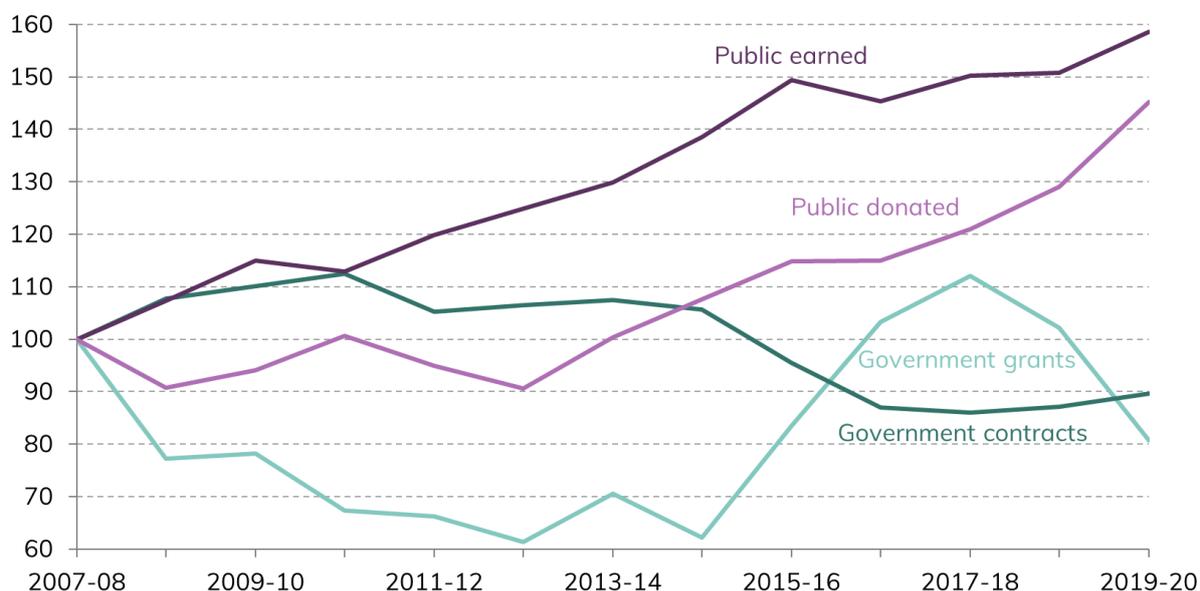
The balance of types of funding flowing into the social sector changed significantly between the financial crisis and the Covid pandemic, driven both by the economic situation and political choices. Over this period, the sector's overall income growth was driven primarily by a steep rise in earned income raised from the public. Money raised from membership fees, events and charity shops made up about £1 in every £6 in 2008 but had risen to £1 in every £4 of the sector's income immediately before the pandemic.<sup>99</sup>

As Figure 13 shows, income from government contracts stayed high until around 2015, when there was a steep decline. Income from government grants fell extremely swiftly from 2009 to 2013, started to recover to around its previous level between 2013 and 2018, but then fell once more.

<sup>99</sup> J Franklin, M Graham, M Whitaker, [Is this time different? Charity funding in recession and recovery](#), Pro Bono Economics, November 2020

**Figure 13: Since the financial crisis, the charity sector has been increasingly reliant on income from the public as government funding has declined**

*Indices of charity income by selected type, 2007-08 to 2019-20 (2007-08 = 100, 2019-20 prices)*



Notes: 'Public earned' covers money 'earned' when voluntary organisations provide charitable services (e.g. tuition fees for training, micro-credit schemes, selling equipment and services) and money 'earned' from trading activity (e.g. charity shop revenues and bake sales). 'Public donated' covers income given 'voluntarily' by the public, mainly charitable donations plus legacies given in people's wills. 'Government grants' covers money given 'voluntarily' to charitable organisations by the public sector, while 'Government contracts' covers services commissioned by the public sector. In this context, 'government' relates to government and its agencies in the UK, EU and internationally

Source: NCVO Civil Society Almanac 2022

The sector's reliance on earned income from the public and government contracts leaves it more exposed now to the twin threats of recession and a further squeeze on government spending than was previously the case.

### Improvements to procurement processes have begun, and more could bring significant benefits to charities and the communities they serve

The Social Value Act, introduced in 2013, was a significant step forward as it created a duty for those commissioning public services to consider the wider social, economic and environmental benefits that might be created by service providers, rather than simply the cost of delivering services. This was particularly welcome for civil society organisations as it provides a route for commissioners to take account of the specific features and contribution of charities and community businesses, as well as the wider benefits they often create when working in communities. However, its use is highly variable and there are fears that the situation may be made worse by the failure to explicitly mention social value in the new Procurement Bill which began passing through Parliament in 2022.<sup>100</sup> (Although other features of the Bill have been welcomed, such as a new duty to consider commissioning in small 'lots' which may enable more access to contracts among smaller charities and community businesses).

<sup>100</sup> S Mercadante, [The Procurement Bill: what does it mean for charities?](#), NCVO, June 2022

Similarly, the introduction in 2021 of new Treasury guidance<sup>101</sup> for using wellbeing measurement and ‘Wellbeing Adjusted Life Years’ (or WELLBYs) when estimating social or public value in ‘Green Book’ appraisals of proposed government spending marked an important step forward. Using wellbeing assessment enables the wider benefits created by many charities to be incorporated into public policy decisions in a far more robust way and begins to spread understanding of these concepts among financial decision-makers. However, there is still a long way to go before such approaches are widely taken up across central or local governments and can have the necessary impact on spending decisions at every level.

## Philanthropic funding and grant-making have become increasingly important to the social sector

The role of philanthropic funding to the social sector has become ever more important, not only because of the proportion of the sector’s income it constitutes, but because of its distinctive nature. Philanthropic funding makes up around a third (37%) of charities’ total income. In 2019-20, charities in the UK received £21.8 billion in individual philanthropy, including public donations of £12.3 billion, income generated through fundraising of £5.8 billion, and legacies of £3.7 billion.<sup>102</sup> In 2018-19, charities’ funding from the public was equivalent to 4.7% of government departments’ revenue spend,<sup>103</sup> or the pre-pandemic revenue of Marks & Spencer, Next and every Premier League football club combined.

In addition to this, charities received about £9.6 billion in grants in 2019-20, nearly a fifth (16%) of its total income.<sup>104</sup> This included around £3.8 billion in grants from government and £4 billion from the social sector.<sup>105</sup>

Philanthropic and grant funding is especially valuable to civil society because of its responsive and independent nature. Philanthropy often allows the sector to respond to newly emerging needs before the state can act. It supports innovation, patient experimentation, and can take risks that are difficult for governments to take on and rarely what businesses are looking for in their charitable partnerships. Philanthropy can also be more flexible than other forms of funding, and supports a wider range of activity than may be palatable to the state or feasible for commercial actors. Effective grant funding holds a particularly special place in the funding landscape, and grants from trusts and foundations can be worth more than their weight in gold. The characteristic independence of these organisations allows them to “take risks, back marginalised causes, work with diverse partners, meet immediate needs, evade the short-termism of political cycles and support long-term solutions.”<sup>106</sup>

***“They are almost unique in their currency. [Charitable foundation grants] can do things that other forms of funding cannot.”***

*- Richard Jenkins, then Head of Policy at ACF*

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<sup>101</sup> Wellbeing [Guidance for Appraisal: Supplementary Green Book Guidance](#), H M Treasury, July 2021

<sup>102</sup> NCVO, [Civil Society Almanac](#), October 2022

<sup>103</sup> HM Treasury, [Public spending statistics: July 2022](#), July 2022

<sup>104</sup> H Barnard & M Williams, [Making it count: overcoming the barriers to better grant-making](#), Law Family Commission on Civil Society, December 2022

<sup>105</sup> NCVO, [Civil Society Almanac](#), October 2022

<sup>106</sup> C Walker & C Pharoah, [Foundation Giving Trends 2021](#), ACF, December 2021. See also T Wallace, [Learning from international development grant making: a review of the Baring and John Ellerman Foundations’ Programme](#), The Baring Foundation, August 2012, 10-11

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Done well, grant funding allows charities to build their capacity, develop relationships, and plan and invest for future growth. Grant income influences the amount of funds that can be raised by other means and facilitates effective use of these income streams. Grant-making can also be a more effective way of commissioning service provision than, for example, procurement via contracts. Funding services through grants especially benefits small organisations, which often struggle to compete for contracts and for whom grants make up a larger proportion of their total income. And local grants enable community-led, flexible growth, while attracting further investment in local economies.<sup>107</sup>

### There is room to significantly increase the quantity and the quality of public and philanthropic funding for charities

The UK is a generous country when it comes to charitable giving, with the public donating around 0.54% of national income to charity, and ranking near the top of international league tables of public donations.<sup>108</sup> But there is evidence that the UK could unlock even greater giving. If the UK's population gave a similar share of their wealth to charity as the populations of Canada or New Zealand, it would provide another £5 billion a year for charities.

Although the income from charity donations has been rising, the **number of people donating** has steadily declined over the last twenty years. If the proportion of the public donating regularly to charities was restored to 2000 levels, an additional £1.4 billion could be raised annually.

And there appears to be particular potential to increase giving among the richest part of the population. Looking at one group of the wealthiest – the top 1% of income earners – demonstrates this well. This group gives about £950 million a year, but donations have not kept pace with income growth. Between 2011 and 2018-19, the total income of the top 1% of earners grew by 22%, but total donations fell by 7%. Most of the top earners who declared charitable donations gave less than 0.2% of their income. If the top 1% of earners increased their donations to 1% of their pre-tax income, it could generate up to £1.4 billion a year.

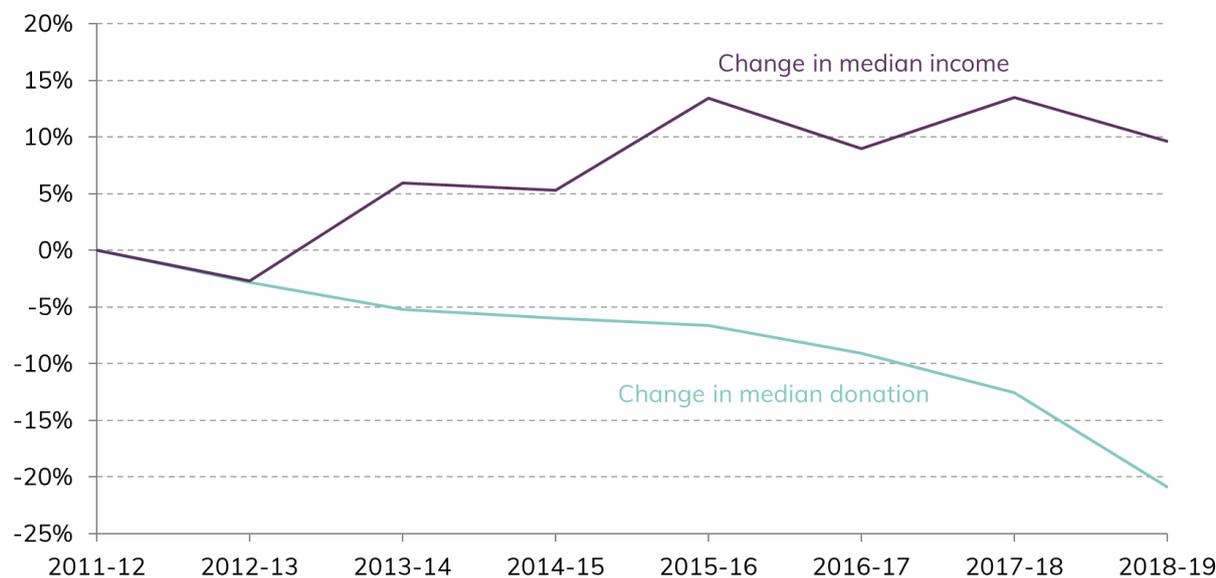
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<sup>107</sup> Directory of Social Change, [Grants for Good Campaign](#), J Unwin, [The Grant-making Tango: Issues for Funders](#). The Baring Foundation, 2004, H Monteiro, "[Why grant-making matters](#)", *Philanthropy in Focus*, March 2014, and House of Lords Select Committee on Charities, [Stronger charities for a stronger society](#), *House of Lords*, March 2017,

<sup>108</sup> A Kenley, J O'Halloran, K Wilding, [Mind the giving gap: unleashing the potential of UK philanthropy](#), Law Family Commission on Civil Society, December 2021

**Figure 14: For many of the UK's top 1% of income earners, the gap between their income and their charitable donations is growing**

*Real terms changes in median income of donors and median donations among the top 1% of earners, compared to 2011*



Notes: PBE analysis of HMRC Survey of Personal Incomes

The second issue to be addressed within both philanthropy and grant-making is their **distribution**. One of the core goals for many charities, grant-makers and philanthropists is to combat geographical and other types of inequalities. Philanthropy and grant-making can play a vital role in directing funding to places and groups which struggle to access private investment and public spending. However, there is evidence that a substantial proportion of the philanthropic and grant finance is failing to achieve this goal, and can even be reinforcing other inequalities.

Deprived places have fewer charities and voluntary organisations than less disadvantaged areas.<sup>109</sup> There also tend to be fewer small charities in disadvantaged areas, due to the lack of resources – money, time and social capital – to support them.<sup>110</sup> These areas thus are more reliant on a local presence from large and medium-sized charities. Cuts to local government funding over the last decade led to charities in the most deprived local authority areas losing a fifth of their income from local government, while those in the least deprived places saw little change.<sup>111</sup> Public donations also tend to be higher in richer areas. Analysis of self-assessment tax records shows that people in the wealthiest parts of the country make seven times as many donations to charity as those in the most deprived areas (excluding London).<sup>112</sup> Instead of counteracting these patterns, charitable grant funding also too-often disadvantages 'left-behind' communities.<sup>113</sup>

<sup>109</sup> D Corry, [Where are England's charities?](#) NPC, January 2020

<sup>110</sup> T Chapman, [Third Sector Trends in England and Wales 2022](#), Community Foundation Tyne & Wear and Northumberland, 2022

<sup>111</sup> D Clifford, Disparities by deprivation: The geographical impact of unprecedented changes in local authority financing on the voluntary sector in England, *Geography, Urban Studies and Planning journal*, July 2021

<sup>112</sup> A Kenley, J O' Halloran, K Wilding, [Mind the giving gap: unleashing the potential of UK philanthropy](#), Law Family Commission on Civil Society, December 2021

<sup>113</sup> OCSI, ['Left behind' Neighbourhoods: Community data dive](#), APPG for Left Behind Neighbourhoods, June 2021

Other inequalities can also be inadvertently exacerbated by the patterns of philanthropy and grant-making. For instance, charities run by and for ethnic minority communities face especially acute struggles in accessing grants, and in raising funds from the public.<sup>114</sup>

*“Why can’t funders make it easy for BME to apply for funding? Some of our women don’t feel comfortable joining mainstream activities, which means we often don’t qualify.”*

*- Ethnic minority-led charity in London.<sup>115</sup>*

Recent findings from the Funders for Race Equality Alliance show that of £122 million worth of funding from its membership, only 14% went to organisations with a mission or purpose of supporting ethnic minority communities, while just 6% of funded organisations were led by people from ethnic minority communities.<sup>116</sup> During the Covid pandemic, the specialised Resourcing Racial Justice fund was able to support only 3% of the 1,400 applications it received, and Voice4Change’s emergency fund for black and ethnic minority charities was nearly seven times oversubscribed.<sup>117</sup>

The third weakness in this part of the UK’s charity finance landscape is the **short-termism and inefficient processes** which reduce the effectiveness and impact of some grant-makers’ funding. There are many examples of thoughtful, impactful grant-making practice, but these practices are not yet sufficiently widespread. The short-term basis on which many grants are offered - often for just a year at a time - leads to uncertainty, leaving charities unable to plan for the future and leading to some of the productivity challenges detailed above. It is also inefficient, forcing charities to expend valuable time and resources constantly reapplying for funding unnecessarily.<sup>118</sup> While some grant-makers offer longer grants of three years or more, this is rarer and sometimes still does not go far enough in tackling these problems.

*“As a charity, you’re in an endless roundabout of tracking down funding, applying for it, evaluating it, reporting on it. It just goes on and on and on and on ... [During] the time that you should be working with the people, [which] you got involved with the charity to do, you end up getting stuck in this endless round of funding.”*

*- Kirrie Connections*

Along with short-term grants, many grant-seekers lament the lack of grant-making designed to support long-term organisational growth and the tendency of many grants to come with stipulations restricting their use to narrowly conceived projects. Restrictive grants are more expensive to implement and difficult to manage, and they overlook the importance of investing over the long term in the skills and capacities an organisation needs to deliver these

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<sup>114</sup> Voice4Change England, [Bridging the gap in funding for the BAME voluntary and community sector](#), July 2015, The Runnymede Trust, [Shared Futures: Funders, Funding, and the BME Third Sector](#), December 2021, and The Ubele Initiative, [Booska Paper: Exposing Structural Racism in the Third Sector](#), April 2021

<sup>115</sup> Property experiences of BME-led voluntary organisations in Southwark, July 2022, Shared with Pro Bono Economics by the Ethical Property Foundation

<sup>116</sup> D Pippard, [Funding and racial justice: data driving change](#), ACEVO, May 2021

<sup>117</sup> Baobab, [Digging Deeper: Insights on Tailored Funding to Organisations Led by Black People and Communities Experiencing Racial Injustice in 2020](#), 2021, 20, and R Hargrave, [Covid Fund for BAME charities was seven-times oversubscribed](#), Civil Society, Feb 2022

<sup>118</sup> Unwin J, [The Grant-making Tango](#), 2004, 29-30, and Newcastle Council for Voluntary Service, [The Voluntary and Community Sector in Newcastle upon Tyne – Part 2](#), 2005

projects well in the first place – often described as ‘core costs’.<sup>119</sup> These include costs such as salaries, rent, energy bills and a wide range of other costs which must be met for the charity to function, but which are all too often excluded from grant funding.

***“I’ve been looking at funding this week for a number of things. And all of it says ‘No, we don’t fund salaries, we don’t fund rent’. And yet, without that, the organisation can’t deliver what it wants to deliver.”***

*- Worcester Community Action*

***“If you are a trustee or sit on a grant-making committee, may I respectfully suggest that you consider - whether you make capital grants or not – that as a funder you do bear some responsibility for the physical conditions of the premises in which volunteers and staff deliver the projects you fund, and that service users experience. Some of the UK’s largest funders are funding projects which take place in conditions which are little short of Dickensian.”***

*- Antonia Swinson, CEO, Ethical Property Foundation*

Complex, costly, and time-consuming application and monitoring processes plague some grant-making. Research carried out by Giving Evidence for the Commission found that charities spend around £900 million a year applying for grants. These costs are driven by a lack of design (with application processes tending to evolve organically rather than purposefully), a lack of information (with neither grant-makers nor grant-seekers tracking these costs), and a lack of skills (with many funders not employing staff with service design or digital skills). These costs fall disproportionately on small and medium-sized charities, both of which can end up spending about a third of raised funds on applying for grants.<sup>120</sup> When factoring in the costs to grant-makers as well, previous research has estimated that as many as 46% of grants cost more than they are worth.<sup>121</sup>

While these problems are widespread, it is heartening that there is a growing body of progressive grant-makers that have chosen to experiment with different approaches to funding, with a particular focus on meeting this need for longer term, flexible investment,<sup>122</sup> such as the Heart of England Community Foundation and London Funders.<sup>123</sup>

### **Box 9. Case study: Heart of England Community Foundation**

During the pandemic, the Heart of England Community Foundation (HoECF) was able to distribute twice its normal number of grants by adapting its processes. This prompted trustees and staff to find more ways to improve applicants’ experience and reduce costs for them and the foundation. HoECF worked with a service design agency, as it did not have in-house digital and design capabilities. The agency carried out research with applicants, grantees and infrastructure support agencies, which highlighted the cost to small charities of having to choose which of the funder’s 15 funding pots to apply to.

<sup>119</sup> Saxton & Lindström, *Taking Nothing for granted: a research report into what charities think a model grant-maker looks like* <https://ellerman.org.uk/uploads/Taking-nothing-for-granted-Report-June-2012-nfpSynergy-and-John-Ellerman-Foundation.pdf>, 2012

<sup>120</sup> H Barnard, *Giving Pains: The cost of grant-making*, Law Family Commission on Civil Society, 2022

<sup>121</sup> T Neill, *46% of grants cost more than they’re worth*, *Time to Spare*

<sup>122</sup> See for instance IVAR’s list of *Flexible Funders*, a group of over 100 grant-makers that have signed up to funding charities in an open and trusting way, including offering flexible grants.

<sup>123</sup> C Fiennes et al, *Understanding and reducing the system costs of foundations’ application processes*, *Giving evidence*, June 2022

HoECF worked with the agency and charities to design a new online single application for most of its funds.

The new approach means that charities now make a single application and the funder matches them to the most relevant funding stream. The new system includes other improvements such as an eligibility checker to reduce ineligible applications; being able to see all questions upfront; and sharing due diligence information only once a year rather than for each application. As well as being more efficient for charities, the new approach also reduces costs for the funder as it removes duplication in assessment processes and due diligence checks.

### Box 10. Case study: London Funders

The London Community Response Fund was set up by London Funders in response to the pandemic in March 2020. The funders involved created a joint shared application form, so that charities only needed to apply once. The applications went on to a portal which all participating funders could see. Some funders participated as 'aligned funders', making their own decisions about which applications to fund. They could 'reserve' applications through the portal that they thought they might fund. Others contributed to a pooled fund run by City Bridge Trust. Those applicants not 'reserved' by an aligned funder were considered by the pooled fund. The London Community Response Fund allocated over £57 million provided by 67 funders and awarded via 3,300 grants.

There are also funders that are thinking in a more transformative way about the role of philanthropy in driving long-term, deep-seated change, investing in communities and supporting genuine transfers of power to local people.

In 2021, the National Lottery Community Fund launched its Growing Good Ideas Fund which offers multi-year grants focused on “supporting transformational and long-term change...visionary initiatives that go beyond individual organisations, and instead focus on ecologies, platforms, ecosystems, assemblages, networks and constellations...generating an infrastructure through which many things are possible.”<sup>124</sup> The fund aimed to support work that did not simply rebuild capacity after the Covid pandemic or mitigate the impacts of inequality or climate change, but rather enabled grassroots organisations and communities to imagine a different future and start to claim the power to create it. Grants were awarded for 10 years and supported organisations such as:

- Civic Square - to retrofit a large set of industrial buildings to create a co-designed, co-built neighbourhood public square in Birmingham, alongside a regenerative economics lab to explore issues such as “how to keep capital flows within neighbourhoods, and share value with those who created it, as well as how to technically and practically return neighbourhood land to the commons for food and play.”<sup>125</sup>
- Slow Ways - to create a national network of walking routes, using existing paths to connect every village, town and city across the UK.<sup>126</sup>

<sup>124</sup> [Growing Great Ideas](#), The National Lottery Community Fund

<sup>125</sup> [Civic Square](#), The National Lottery Community Fund, 2021

<sup>126</sup> [Slow Ways](#), The National Lottery Community Fund, 2021

- Farming the Future - to build and amplify the ‘agroecology’ movement to transform the UK’s food system by applying “ecological principles and concepts to farming and growing; creating harmony between plants, animals, humans and the environment, while addressing the social aspects of a just food system.”<sup>127</sup>

In 2022, the Edinburgh Voluntary Organisations Council, working with a number of Scottish funders, started to develop a similarly ambitious new fund. The Regenerative Futures Fund is planned as a new 10-year fund in Edinburgh, aiming to develop a new funding model to support charities in long-term transformative work, creating the space and capacity to contribute to meeting the city’s goals of ending poverty and reaching net zero.

Expanding good practice across more of the grant-making sector would give grant-seeking organisations the confidence and space to develop powerful, long-term strategies for their work, and increase the proportion of charitable funding that supports the delivery of charitable objectives.

### Other income streams have grown in importance for community businesses, including community shares and social investment

Over the past two decades, there has been a shift towards diversifying the sources of finance that are available to community businesses. Community businesses generate some or all of their income through trading activities for social benefit, in addition to relying on some grant funding. Rooted in and accountable to their local community, they reinvest any surpluses to meet the community’s needs and keep money cycling in the local economy. Alongside trading income and grants, community businesses often seek investment from their local community, social investors and even mainstream banks to help them grow. For example, Stretford Public Hall in Greater Manchester is owned by members who have invested equity through a community share offer. As well as owning the building, members have a say in how the community business is run.

Social investment, sometimes offered to organisations as a blend of grant and loan, recognises through its preferential terms the social impact that community businesses can deliver. However, for community businesses to be able to take on social investment, there needs to be adequate support, infrastructure and capacity within the sector. In Liverpool City Region, community businesses have worked with the Combined Authority and Power to Change to establish and fund Kindred. This is a social investment and support vehicle owned by the sector in that region which offers flexible and patient investment at 0% interest to social economy organisations, which can then repay a portion of their loan in social impact. There is interest in other areas in developing similar regionally-focused funds to meet the finance and support needs of community businesses, supported by Combined Authorities and city mayors.

### Government, philanthropists and charities can work together to increase and improve funding for the UK’s charities and community businesses

The Commission is proposing a five-point plan to increase and improve funding for the UK’s charities.

First, to continue growth in good practice, more **grant-makers - including independent, private and public sector funders - should offer long-term, more flexible funding; invest in**

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<sup>127</sup> [Farming the Future](#), The National Lottery Community Fund, 2021

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**building charities' capabilities; and streamline application and reporting processes.**

Improved grant-making requires a shift towards more sustainable, stable funding for social sector organisations, unencumbered by overly laborious processes, to maximise the efficiency of the system and the impact delivered. Grant-makers can achieve this vision through incremental improvements, significant shifts in approach, and transformative practices.

Incremental improvements can reduce the time and cost of applying for funding, especially for small and medium-sized charities, for example: publishing funding priorities, criteria and success rates; providing an eligibility checker; and ensuring application forms make all questions visible upfront, avoiding repetition and able to be saved during the process. Even very small funders could help to improve the funding landscape by taking steps such as allowing their grants to charities to be used to support core costs (including costs such as rent and energy bills), in addition to specific projects.

More significant improvements can achieve even more, particularly for better resourced funders, for example: increasing funder collaborations; using joint application forms; striving to reduce numbers of ineligible and unsuccessful applications; and ringfencing funding for charities serving and led by people from ethnic minority and other marginalised groups. And truly transformative funding approaches have the potential to create even greater change, investing in communities for the long-term, and enabling people to look beyond incremental changes to the status quo, and to imagine and create a different future.

Second, the **Charity Commission, infrastructure bodies and independent benchmarkers should immediately begin to encourage more grant-makers** to make these changes. The Charity Commission should more actively and vocally highlight the problems caused by poor quality grant-making, what good grant-making looks like, and the resources that exist to support improved practice. Using the Commission's 'soft power' in this way would help to persuade larger grant-makers to move in this direction. And among smaller grant-makers which are less likely to be members of networks or in touch with fellow funders that can share ideas and learning, the Charity Commission may be the only organisation that can reach into this part of the funder community. It can thus play a pivotal role in sharing information, ideas and signposting sources of support. The Commission can encourage trustees and staff to consider possible improvements and show support for them to invest a little more resource in their own operations where doing so means they can achieve greater impact with the rest of their funding.

Independent benchmarks have been used in many sectors to raise awareness of good practice, enable organisations to compare their performance with their peers, and increase interest and motivation to improve. In recent years, some independent benchmarks have been introduced for the foundation sector and been well-received by many. Expanding benchmarking to cover more of the aspects of good grant-making highlighted in this research, and increasing the number of organisations participating (with an appropriate segmentation of large and small foundations) could speed up the adoption of better practice.

Third, **charity sector infrastructure bodies should play a greater role in speaking out on behalf of the sector** where individual charities are reluctant to raise issues with funders out of fear for their future funding. Infrastructure bodies need to take the lead in making the negative consequences of some current grant-making practices visible, as organisations such as IVAR have been doing. They should work with the Charity Commission, the

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government, benchmarkers and the Association of Charitable Foundations (ACF) to define and highlight better approaches and encourage grant-makers to take these up.

Fourth, **the UK, devolved and local governments should make use of the powerful levers they possess** to grow charitable giving and other forms of investment in civil society organisations across the nation, to learn from the insights it provides, and to blend philanthropic action with private and public investment to revitalise those parts of the country which need it most.

Governments can help to set the tone about philanthropy in the areas they are responsible for, directly and indirectly encouraging individuals to give. They can convene across sectors to unite organisations with a common purpose and so aid collaborations which achieve more overall. They can actively partner with philanthropists, grant-makers and charities to leverage greater funding and grow fundraising capacity through match-giving schemes. The UK government can also improve regulation, guidance, taxation and the measurement of philanthropy to make giving more effective and impactful.

Currently, however, the UK government has only a third of a single civil servant's time dedicated to philanthropy policy, along with a few civil servants responsible for relevant taxation. Seizing the opportunities offered by philanthropy requires greater capacity within the UK government.

The first step that the UK government should take to deliver this capacity is the appointment of a **Philanthropy Champion**: potentially a public appointment supported by a civil service team or a senior civil servant, this individual would have responsibility for driving forward the UK's approach to philanthropy. The Philanthropy Champion should be visible to both the philanthropy sector and the rest of Whitehall, and act as a gateway for both sides – to receive insights from philanthropists and grant-makers on the barriers to investment, and to communicate to the philanthropy sector the strongest opportunities the rest of government identifies. The Philanthropy Champion also needs to have the resources and authority required to coordinate cross-government action on measurement, regulation and taxation of philanthropy in order to unlock its potential. And they must be backed by a commitment across government to act on their recommendations.

The Philanthropy Champion should lead a **“leveraging philanthropy” best practice drive** alongside the Cabinet Office. Philanthropy sector organisations and government should work in partnership to accelerate knowledge of philanthropy in the civil service, focusing on how policymakers can leverage its expertise and resources through innovative financing models such as match-funding. Guidance and training on this should be embedded within civil service development, and a bank of best practice examples grown over time and shared.

There is also particular need to draw philanthropic investment to areas where civil society is currently weak, and where there is often a lack of philanthropy compounding a lack of private investment. **Local philanthropy champions** should therefore be appointed by local authorities and metro mayors. These local champions would encourage giving by their peers, the business community, and wealthy individuals who grew up in their area. They would also gather and spread best practice and work with mayors, councils, MPs and expert local organisations to understand local need and connect it with interested donors.

The national and local philanthropy champions should work together to identify the most effective ways to support greater flows of philanthropy into the places that need it. Place-

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based match-funding schemes have previously been shown to draw giving to specific places and the government could experiment with incentives such as varying Gift Aid in these areas to support such schemes.

Alongside this increased focus on growing and leveraging philanthropy, UK, devolved and regional policymakers should also support the growth of other forms of finance for civil society. In particular, they should expand access to community shares and social investment and ensure more of the sector is equipped to make use of such finance. The Commission welcomes the proposals set out in the Community Enterprise Growth Plan proposed by a coalition including Social Enterprise UK, the National Association for Voluntary and Community Action (NAVCA), Power to Change and UnLtd. This aims to increase access to capital and business support for social enterprises in deprived areas. In particular, the plan aims to help smaller charities and social enterprises by offering finance that blends grants and loans, providing start-up funding for a £50 million black-led social investment fund, supporting the network of non-profit lenders (Community Development Financial Institutions), and offering tailored business support and incentives for social enterprises to grow through 'match trading initiatives'.

Finally, the **FCA should act to increase provision of high-quality financial advice and guidance on philanthropy by financial advisors to their clients.** The UK's financial services sector has the potential to help drive up the quantity and quality of philanthropic giving among wealthy individuals and businesses. At present, however, financial advice and guidance on philanthropy is not consistently offered to people who have the capacity to give, and when advice is provided it is not always of a sufficiently high quality. Those firms that do provide high quality financial guidance on philanthropy reap the rewards, deepening their relationships with both their clients and their clients' families. This means they can offer better services and increase their chances of maintaining custom across the generations. Millennials and other younger investors are particularly interested in philanthropy, giving firms that offer such advice an edge in attracting their custom.

In the US, financial advice on philanthropy is offered to clients as a matter of course and appears to have contributed to a dramatic rise in donor-advised funds, which more than tripled between 2015 and 2020. The amount paid out in charitable grants from these funds rose from \$14.2 billion in 2015 to \$34.7 billion in 2020.<sup>128</sup>

The FCA has a responsibility to drive up the provision of high-quality financial advice and guidance on philanthropy as part of its commitment to support the financial services sector to achieve positive change and to ensure the sector provides the products and services consumers require. The most powerful step that it can take immediately is to **mandate the training of financial advisors on philanthropy and impact investment**, by ensuring the topics are included in the relevant curricula for both newly-qualifying advisors and current advisors through continuing professional development (CPD). To ensure that advisors make use of that training, the FCA should set out a timetable by which it will require relevant financial advisors to discuss philanthropy with their clients as a matter of course during suitability assessments. One of the first steps it will need to take to undertake this work is a sector-wide conversation on philanthropy's potential and the barriers preventing financial advisors from speaking to their clients about charitable giving.

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<sup>128</sup> N Sykes, [Giving advice: the case for the FCA to act on philanthropy](#), Law Family Commission on Civil Society, 2022

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### Box 11. Case study: Learning from international best practice

**The US government has over 40 federal-level Philanthropic Engagement Liaisons** – civil servants embedded in, for example, the Department of Transportation and the Department of the Interior. It is their responsibility to: facilitate information exchange between the department and the philanthropy sector; incubate projects which the philanthropy sector and the state can collaborate on; train departmental staff in identifying opportunities to increase philanthropic engagement in community partnerships. Under President Biden's administration, the model is being scaled up with the ambition that all federal departments will have a small team of liaisons in place to leverage philanthropy.

The **Denver Office of Non-profit Engagement** is a division of the city's Agency for Human Rights and Community Partnerships. It serves as a liaison between the city and non-profit sector and aims to increase the capacity and sustainability of the non-profit sector. Though its original focus was philanthropy, the office was so successful its remit was widened to include: delivering training and workshops for non-profits; convening non-profits to deliver targeted programmes; improving internal contracting processes, regulation and guidance; and assisting non-profits to leverage funding.

### Box 12. Case study: Learning from the UK experience

The **University Matched Funding Scheme** ran between 2008 and 2011 and was intended to incentivise giving to universities and encourage fundraising professionalism within institutions. It included an extensive programme of capacity-building training in fundraising and a public information campaign. In England, donors gave £580 million, which was matched by £143 million from the UK government. The number of donors to higher education accelerated at a time when charitable giving overall declined and higher education giving in North America fell. Universities are now recognised as one of the most sophisticated fundraising sectors in the UK, with giving rates continuing to rise.

The **Community First** programme had two parts: a Neighbourhood Match Fund (NMF) and an Endowment Match Challenge (EMC). The first was a small grants programme focused on the most deprived wards in the country. The second was undertaken in partnership with Community Foundations, aiming to help them develop long-term endowments for their areas. Government gave 50p for every £1 donated by the public. In total, 18,055 projects received £94 million in NMF funding. Over 9,000 grants worth more than £23 million were made through the EMC in the first five years. Endowments worth over £140 million in 2017/8 provided long-term investment in the areas involved. The programme increased community organisation, funding application and funding management skills in communities with high deprivation, with over 5 million volunteering hours contributed.

Combined, these steps would help to ensure a stronger social sector which is there for the people who need it most, and more resilient in crises. Less wasted resources and better targeting of support would mean greater resources available in the places and causes where it can make the greatest impact. And increased levels of philanthropy would see not only greater giving, but stronger ties between individuals and the communities they are supporting - nurturing understanding and social cohesion.

## 6. Parallel tracks: Links with business

*“There are many examples of businesses around the UK that do brilliant work with civil society, whether it be through community outreach programmes, employee-supported volunteering or simply the donation of much-needed funds. But there is no doubt that businesses of all shapes and sizes can and should do more.” – James Timpson*

### Box 13. Business: Key findings and recommendations

#### Findings

- Partnerships between businesses and charities benefit both sectors and wider society, when all organisations in the partnership are able to trust, understand and respect the other’s role.
- Increasing emphasis within the corporate world on achieving purpose, as well as profit, creates a huge opportunity to strengthen and spread these links, as does the ESG agenda.
- The social sector can benefit from business links through financial and in-kind donations, employee volunteering and secondments, and – most of all - deep partnerships to achieve common goals.
- Despite many examples of impactful partnerships and business donations of £2.4 billion a year to local social sector organisations, the average business contributes only £450 to small charities.
- Business links are spread very unevenly, with smaller charities and those serving rural areas, older people and people from ethnic minority groups much less likely to receive support from the private sector.
- Those charities which do partner with businesses sometimes struggle to manage the short-term nature of support and power imbalances in the relationship.

#### Recommendations

- Business and charity infrastructure bodies should urgently form a partnership focused on raising awareness of the benefits of links among both businesses and charities, to create opportunities for both sectors to come together where they have shared goals, and to spread resources that provide both sectors with the tools to overcome the barriers to working together. Tackling the current cost of living crisis should provide the initial impetus and focus for this, given the relevance for both sectors.
- Charities, businesses, investors and advisors should work together to improve the measurement of businesses’ social impacts and the value of civil society partnerships, as well as to drive the use of voluntary disclosure initiatives to encourage more businesses to engage with civil society.
- Civil society organisations should campaign with businesses and investors to drive behaviour change and increase take up of opportunities to work with civil society.
- The UK government should aim to reinstate the requirement for businesses to report their contributions to charities and civil society. Ahead of mandating disclosure, it should incentivise more businesses to make voluntary disclosures to platforms, such as the Workforce Disclosure Initiative (WDI) and the Business for Societal Impact (B4SI) database, by linking tax relief and procurement to disclosure.

## Partnerships between businesses and charities bring benefits to both

The idea of achieving purpose alongside profit has been part of the business world for centuries, but the importance placed on it has reached new heights in recent years.<sup>129</sup> Nearly nine in ten (88%) members of the public now believe businesses should play a greater role in relation to social responsibility, tackling social issues, contributing to achieving net zero goals, and paying a fair share of taxes. Consumers increasingly value and demonstrate loyalty to brands which have a social purpose. The majority (72%) of employees similarly believe purpose should hold more weight than profit. Two-thirds of millennials consider businesses' social and environmental commitments when they decide where to work, and many employers have found that a strong sense of purpose and support for volunteering are powerful tools to improve employee satisfaction, wellbeing, productivity and retention.

*“...and it’s not just the new grads that are talking about this now. My peers are asking me all the time what we’re doing on sustainability and how we’re making a difference.”*

*- Carmel McQuaid, Marks & Spencer*

*“I think there is a real sea change. I think that businesses have moved from ‘we should do this’ to ‘we want to do this’. And I think the last year has really shifted that enormously. I think it’s less now about CSR and more about partnerships for change.”*

*- Suffolk Pro Help*

There is also mounting evidence that purpose-driven businesses outperform those without a strong purpose, and that ignoring social and environmental concerns can contribute to instability and damage a company’s ‘social licence to operate’. This has helped to drive up interest among shareholders and investors in the ‘ESG agenda’ – taking account of how environmental, social and governance factors influence a company’s performance. ESG-focused investment funds are now forecast to outperform conventional funds by 2025.

Civil society organisations are ideally placed to support businesses as they develop their social purpose and get to grips with each strand of the ESG agenda. Social sector organisations have provided leadership on climate action and across many other environmental issues for many years. The creation of social value is at the heart of civil society, and the sector holds immense expertise on any number of issues that businesses need to address as part of managing their social impact, such as upskilling workers, supporting those furthest from the labour market into good jobs, boosting employee wellbeing, addressing racial injustice and gender inequality, and improving accessibility for disabled consumers.

Charities and community groups are rooted in local communities, enabling them to facilitate consultation and provide insight to inform businesses relations with their local communities, consumers and potential workers. Finally, businesses can of course claim tax relief when they make financial donations to charities.

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<sup>129</sup> N Sykes, [Purpose: On parallel tracks](#), Law Family Commission on Civil Society, August 2021

### Box 14. Fruitful partnerships

The charity Cancer Research UK's commercial partnerships have created 43 start-ups leveraging more than £1.5 billion in inward investment dedicated to their cause.

A partnership between a leading autism charity and a global law firm allowed the law firm to learn about autism and develop a service specialising in providing legal advice to and representation for people with autism and their carers. The charity received advocacy for its beneficiaries on a pro bono basis – a collaboration worth millions of pounds to both sides over its 20-year existence.

The relationship between small youth empowerment organisation 2020 Change and its corporate partners allows brands to access focus groups with young people from the black community to gather their thoughts on products and marketing materials. Meanwhile, 2020 Change's beneficiaries benefit by gaining placements and employment within these firms.

For civil society organisations, the benefits of business links are equally clear. Businesses contribute to the work of civil society organisations in a wide range of ways, from direct financial contributions, in-kind donations, employee volunteering and secondments to joint projects and more substantive partnerships, marrying the distinctive skills of both to further a common goal. Business donations of funds and services are estimated to have contributed £2.4 billion to the local social sector in 2019.<sup>130</sup>

Figure 15: Value of direct business support to small social sector organisations (proxy values, mid-range estimates, England)



Source: T. Chapman, Going the extra mile: How businesses work with the local social sector

Skills-based volunteering is also popular, with professional volunteers able to contribute not only their time but their expertise. When run effectively, skills-based volunteering can significantly build capacity within charities, allowing them to develop their services and strategy and to become more sustainable. Deep and genuine partnerships between charities and businesses with common aims can multiply the impact of their individual efforts.

***“The core idea of pro bono support is a compelling one - that those working to tackle poverty, for public gain, should have no less access to high quality professional skills than those who are wealthy and have the means to pay for them for private gain.”***

*- Pilotlight*

<sup>130</sup> N Sykes, [Purpose: On parallel tracks](#), Law Family Commission on Civil Society, August 2021

## But connections between them are limited and uneven

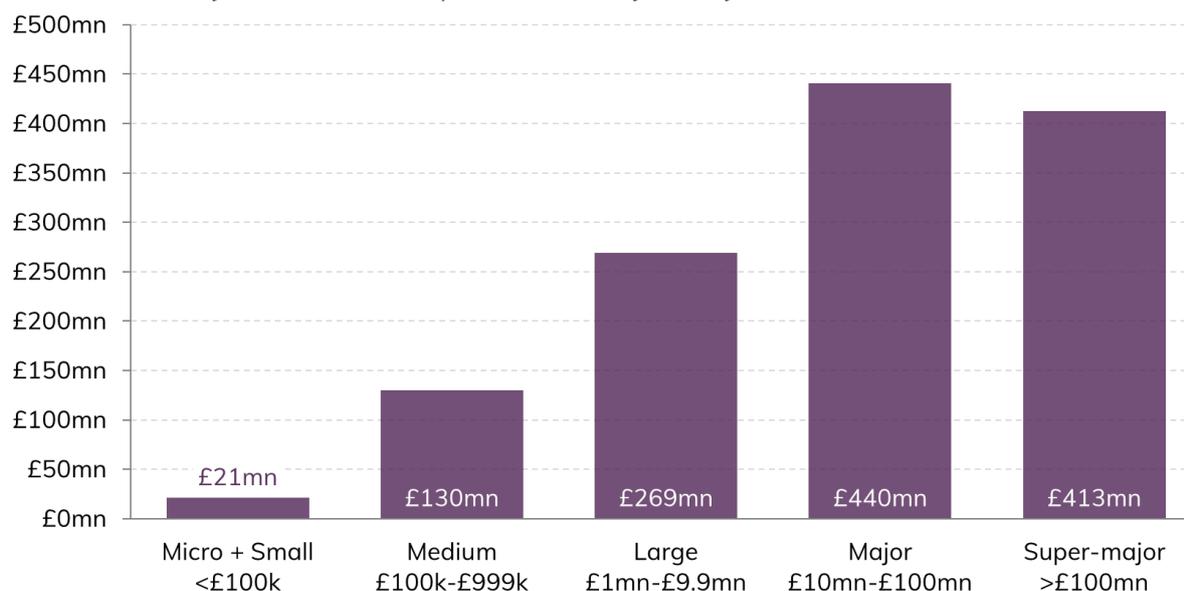
There are many examples of highly impactful and mutually beneficial links between businesses and charities, but there is also evidence that these are not sufficiently widespread, and that some existing relationships do not operate optimally for either side.

Business support totalling £2.4 billion is undoubtedly vital for the social sector, but amounts to just 0.06% of the private sector's turnover of £3,952 billion. The average business contributes around £450 a year to small charities, only just above the amount they misplace from petty cash (£355).

Business support is also currently distributed very unevenly. Large charities gain far more than small ones. And businesses in the North East and South West provided proportionally more support to their local social sector than those in other regions (although those in London and the South East offer the greatest value in absolute terms). It is also concerning that smaller organisations serving people in rural areas, older people and ethnic minority communities appear to be much less likely receive support from the private sector than organisations which serve other groups.

**Figure 16: Financial donations from the private sector are heavily skewed in favour of larger charities**

*Value of voluntary income from the private sector by charity size, 2019-20*



Notes: PBE analysis of NCVO Civil Society Almanac. Charity size is determined by reported annual income in previous financial year

Source: NCVO Civil Society Almanac, October 2022

The nature of the relationships that already exist are generally positive, with 84% of local social sector organisations reporting that they feel that the businesses they work with trusted them to be well-organised and professional.<sup>131</sup> However, there are concerns among social sector organisations about their current relationships with businesses. The most common reported cause of dissatisfaction is the short-term nature of much business support, which three-quarters (75%) of organisations in the sector cited as a concern – similar to the concerns about grant-making reflected above. The majority of social sector organisations (63%) also feel that businesses do not make sufficient effort to understand what they do, and

<sup>131</sup> N. Sykes, [Purpose: On parallel tracks](#), Law Family Commission on Civil Society, August 2021

nearly half of those already working closely with the private sector feel that businesses always want them to work to their agenda.<sup>132</sup>

*“One of the problems with one-off donations is essentially they're not sustainable. And it creates extra work trying to work out how are you going to replace it.”*

*- Law for Life*

*“We've never, I think, apart from one company, in the past managed to sustain a very meaningful partnership... I guess CSR can sometimes feel more performative rather than meaningful...”*

*- Bounceback Food*

Developing and maintaining effective partnerships requires significant effort from both sides, not only in verifying that each organisation is comfortable with the values and operations of the other, but also in establishing and maintaining effective relationships. This is not something that all businesses are prepared for, and not something that all charities find they have the capacity to maintain effectively.

*“It takes time to bring together different organisations... Negotiation and discretion are consistently required to ensure we can create impact while retaining independence of thought and position, while maintaining wider stakeholder relations.”*

*- British Heart Foundation*

#### **Box 15. Case Study: NSPCC.<sup>133</sup>**

The NSPCC found that companies wanted to give something other than money - to volunteer and partner with them. It took the charity a couple of years to transform to be able to accept this sort of help. The resulting partnership related to the company's social mobility strategy. The business was motivated by a desire to have a tangible impact and to motivate and engage staff. Following the success of the initial project, the company continues to provide pro bono support to the NSPCC.

It is important to the business that they can show the impact and tell the story of the work, especially for staff. They had received feedback such as “this is the best thing I've ever done at [company name], it gave me a reason to get up in the morning.” The business found that tangible benefits flowed from the partnership in staff satisfaction and retention, which justified the cost of enabling staff to take time out of their working day.

To support corporate partnerships, the charity developed a new team to look at the impact of the partnerships and how they can report that back, combined with the long-term legacy of that work. For example, in 2016, one major corporate partner invited charities to bid on strategy work. The charity worked on a project that brought together all agencies involved when a child has disclosed sexual abuse. The project enabled them to reduce the time from disclosure to referral from nine months (due to the number of agencies needing to be involved) to five days.

<sup>132</sup> T. Chapman, [Going the extra mile: how businesses work with the social sector](#), Law Family Commission on Civil Society, July 2021

<sup>133</sup> Regenerate, [Solve S for ESG: how businesses can approach the S in ESG and how partnerships with civil society can help](#), Law Family Commission on Civil Society, September 2022

It is unsurprising that experiences with businesses therefore tend to be more positive among larger charities and those working across different parts of the country, rather than in just one area. These charities are more likely to have the resources to devote to developing and managing relationships, to reporting impact, and to making effective use of volunteers and secondees. Their large size and income may also mean that the power balance is more evenly spread between these charities and businesses than is the case for smaller charities. Even large charities, however, find that they need to make significant adaptations to their operations in order to make the best use of business support.<sup>134</sup>

Yet there is clear appetite from charities to create greater links with businesses. During 2021, a third (35%) of charities reported that they wanted to collaborate more with businesses after the pandemic.<sup>135</sup> There is also enormous untapped potential within the private sector that civil society could be utilising. And with three-quarters (75%) of charities reporting that they found it difficult to find opportunities to meet businesses,<sup>136</sup> there may be some relatively simple solutions to close the gap that operates between the sectors, which could have big knock-on impacts in the long-term.

### Civil society, businesses and government can all stimulate more and better partnerships between the private and social sectors

The growing momentum behind the ESG agenda, responsible capitalism, and purposeful business provides a significant opportunity to expand and deepen partnerships between charities and businesses. In particular, there is increasingly pressure for businesses to advance their understanding of and action around the 'S' in ESG and for transparency through 'social disclosures'.

The term 'ESG' means different things to different people. From a technical perspective, it is a tool that investors can use for risk management. From a more general perspective, many people use 'ESG' as a term to mean broader efforts that achieve more sustainable business. Both uses of ESG create opportunities for the private and social sectors to work more closely together.

From the technical perspective, there is ever-increasing interest in how to achieve more socially-responsible businesses as recognised by investors. Assessments of progress across the ESG agenda often start from the assumption that the environmental strand is far advanced, while the social side lags behind. In fact, it would be more accurate to say that action and reporting around one environmental issue – climate change – are further ahead. The many other issues that come under the environmental heading (such as single-use plastics, water use, deforestation, ocean acidification and biodiversity) are far less developed, as is the social side of the agenda. There is, however, momentum behind changing both of these elements, some of which is likely to be driven further by the introduction of new international regulations mandating social disclosures – the provision of certain information in a certain format regarding a company's performance against societal objectives. Once these disclosures have been agreed by the International Financial Reporting Standards

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<sup>134</sup> Regenerate, [Solve S for ESG: how businesses can approach the S in ESG and how partnerships with civil society can help](#), Law Family Commission on Civil Society, September 2022

<sup>135</sup> N Sykes, [Purpose: On parallel tracks](#), Law Family Commission on Civil Society, August 2021

<sup>136</sup> T. Chapman, [Going the extra mile: how businesses work with the social sector](#), Law Family Commission on Civil Society, July 2021

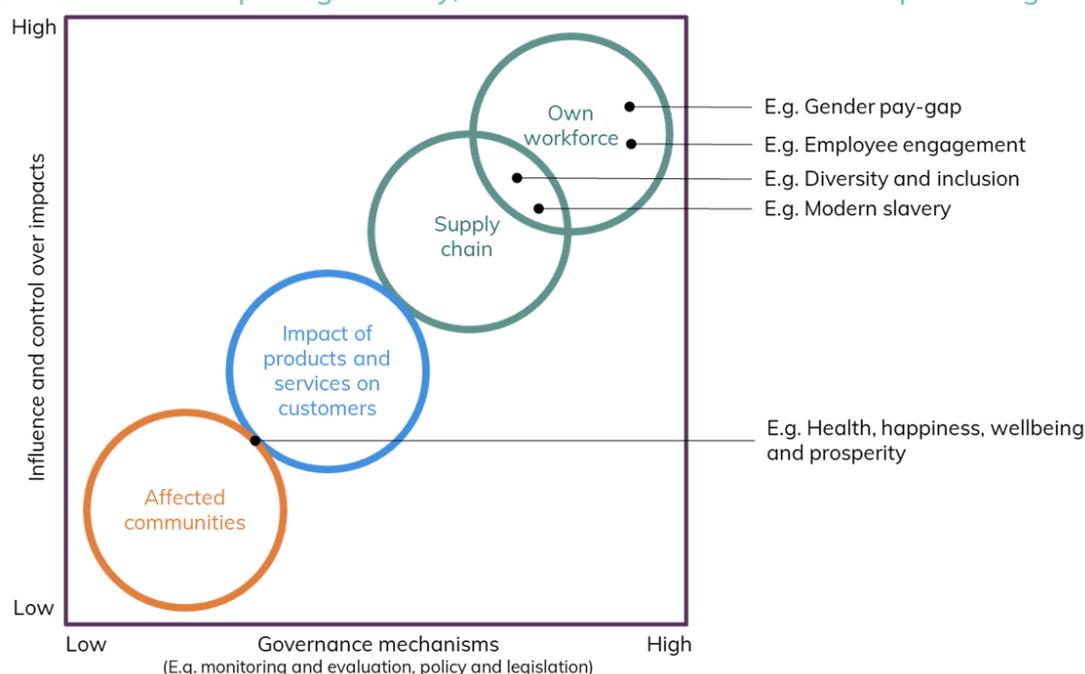
Board, UK businesses trading elsewhere will have to adhere to them, and the UK's Financial Reporting Council (FRC) is also expected to adapt them for UK regulations.<sup>137</sup>

When considering social impact and social disclosures, the EU has published a draft social taxonomy which – while far from perfect – helps as a framework for civil society to understand the thinking of the private sector in relation to the 'S' in ESG, as it sets out three ways of breaking down social impact which are simple to conceptualise: the impact a business has on its workforce and the supply chain; the impact of products and services on consumers and end users; and the impact on communities the business affects.

These three areas vary significantly in relation to the degree of direct influence a business has over them, how far they are currently well-understood, and how far they have widely agreed measures and reporting standards. Partnerships with civil society can be invaluable to businesses in relation to each of these areas of social impact.

As is shown in Figure 17,<sup>138</sup> businesses have more control and a more mature measurement and reporting framework to draw on in relation to workforce issues, while understanding and measurement of community impacts is the least developed.

**Figure 17: The reporting maturity, influence and control of social impact categories**



Source: Regenerate, Solve for S

## How to bring the parallel tracks together

Businesses are a strikingly underused source of funding and skills for the charity sector. It is especially important to tap into this source given current pressures on other sources of funding, with public donations expected to be affected by the cost of living squeeze and economic downturn and government finances under strain. More charities should prioritise

<sup>137</sup> Regenerate, [Solve S for ESG: how businesses can approach the S in ESG and how partnerships with civil society can help](#), Law Family Commission on Civil Society, September 2022

<sup>138</sup> Taken from: Regenerate, [Solve S for ESG: how businesses can approach the S in ESG and how partnerships with civil society can help](#), Law Family Commission on Civil Society, September 2022

identifying and cultivating opportunities to tap into the business sector, with charity umbrella bodies supporting them to access opportunities to do this.

There are three steps that the Commission is recommending action on to help unlock the untapped potential of more and better links between businesses and civil society.

First, **business and civil society umbrella organisations should work together to raise awareness of the benefits of links among charities and businesses and create opportunities for them to meet** and develop relationships. This campaign should harness the power of inspirational stories and evidence of the advantages gained by both sides in these relationships. It should also include support for both businesses and charities to understand each others' priorities and ways of working, and advice about best practice for working effectively together. Much of this already exists but is not widely known about.

The CSEVO discussed above should also play a role in generating and disseminating relevant evidence to support the campaign. And, at a local level, the reinvigorated local infrastructure discussed in sections 3 and 8 should include in its role helping businesses and charities to connect. The mapping of civil society and other actors in an area, discussed below, would help businesses identify organisations to work with, and local philanthropy champions would also aim to increase business contributions to local charities and coordinate this with local authority funding and economic development activity.

The campaign should be designed to drive behaviour change as well as raise awareness and offer advice and support. One lesson from the success of the climate change movement within the 'E' strand of ESG is the power of coalescing around a totemic issue and coordinating with a wide range of stakeholders, including investors, to drive systemic change, not least through disclosures. In order to engage the investment industry, the campaign would need to demonstrate that the social issues involved pose a 'systemic risk to the predictability and stability of their portfolios.' In relation to the 'S' of ESG, issues such as poverty or wellbeing would be likely candidates to support making this case.

The creation of two new taskforces has been a useful step along this path. These are modelled on the highly successful Taskforce for Climate-related Financial Disclosures (TCFD). The Taskforce on Nature-related Financial Disclosures (TNFD) aims to widen action to more environmental issues, while the Taskforce on Inequality-related Financial Disclosures (TIFD) focuses on economic inequality.

Many more businesses might be keen to take up opportunities to work with charities if the weight of campaigners, consumers, employees, investors and auditors were brought together to drive it forward.

Second, **all sectors should act to improve measurement of businesses' social impacts and the value created by civil society partnerships.**

There are many useful lessons to draw from the success of the climate change movement in driving business engagement and action. It demonstrates the power of creating consensus around measurable and time-bound targets and using disclosure and transparency to harness the power of pressure from investors, consumers, employees and communities to demand change and hold companies to account for their impacts. In the social sphere, this has started to be developed through the WDI and TIFD.

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Businesses, advisors and investors can lead the way here, stepping forward to engage with these initiatives; developing approaches which others can follow; and advocating for the benefits of doing so. Charities should support these moves, contributing their insight to businesses attempting to do this, celebrating those which move in the right direction and galvanising consumers, employees and investors to encourage others to do likewise.

Third, **the UK government should aim to reinstate the requirement for businesses to report their contributions to charities and civil society.** This was included in the 2006 Companies Act, alongside the requirement to disclose political donations. In 2013, however, the FRC removed the obligation to report charitable donations, while keeping that requirement for political donations. At the time, it was argued that mandatory disclosure of philanthropic donations did not appear to drive behaviour change among businesses.<sup>139</sup> However, the Commission believes that reinstating mandatory reporting, and giving it prominence on the front page of company accounts, could have a significant impact on business behaviour, if linked to pressure created by the campaigning discussed above.

Ahead of mandating disclosure, the government should use tax relief and procurement requirements to incentivise more businesses to make voluntary disclosures to platforms such as the WDI and the B4SI database (a standard and database created in the 1990s to help businesses capture and report their charitable giving and societal impact). It should also support the intentions behind the forthcoming international recommendations for sustainability reporting and communicate its support at an early stage so business service providers, investors and company leaders can start to prepare.

Combined, these steps could help to drive action at a significant scale to solve some of society's biggest problems more effectively. Working together, businesses and civil society can achieve more progress on totemic challenges like inequality and poverty. The voices of communities most affected by some of the negative consequences of industry could be a greater part of creating the solutions, and so the trust that exists between businesses and communities could grow. Businesses might compete more fiercely to have substantial positive social impact in the world and be better held to account if they do not. And, given the link between organisational performance and purpose, a greater focus on social impact across the private sector might even help to drive more sustainable growth across the UK.

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<sup>139</sup> Regenerate, [Solve S for ESG: how businesses can approach the S in ESG and how partnerships with civil society can help](#), Law Family Commission on Civil Society, September 2022

## 7. A trusted partner? Working with policymakers

*“The social sector is a key partner with the public and private sectors in the delivery of solutions to major societal challenges, and a fully ‘match fit’ sector will boost its productivity and deliver maximum impact for every pound of public funds, grants or donations. There is a key role for government – both UK and devolved – and for regulators to shift from reactive intervention to proactively nurturing and supporting a thriving social sector.” – Theresa Shearer*

### Box 16. Policymakers: Key findings and recommendations

#### Findings

- Relationships between policymakers and charities matter immensely, affecting the nation’s progress and day-to-day life for millions of people.
- Charities are major public service providers, provide unique evidence and insight to inform policy, hold government to account and raise voices which would otherwise be overlooked or silenced. Charities and voluntary groups bring people together in communities, develop trust and social capital, and mobilise people to take action together.
- Vibrant, healthy relationships between policymakers and civil society enable each to achieve more.
- There is a strong bedrock of engagement and respect between charities and policymakers. Extraordinarily high proportions of MPs and councillors are in contact with charities, drawing on their evidence and insight and connecting them with local people in need of support.
- However, nearly half of civil servants have no contact with charities, and both policymakers and charities feel they need to understand one another better.
- Some policymakers are frustrated or sceptical about the quality of evidence and campaigning within the social sector, while some charities report increasingly negative attitudes among politicians regarding their important campaigning work.
- There is appetite among all groups of policymakers to increase the level and quality of contact with charities.

#### Recommendations

- Charities and governments (both the UK government and devolved governments) should jointly create more opportunities for civil servants and charities to work together, through an annual ‘Chevening’ event for permanent secretaries and sector leaders, revised training for civil servants, and increased secondments and volunteering opportunities.
- The UK and devolved governments should increase the representation of charities within formal consultation structures, such as departmental advisory groups, and ensure charities are not excluded from these due to legitimate criticism of government policy or practices.
- The social sector should continue to increase the quality of its evidence and campaigning, enabled by more support from funders for these activities.

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## The relationship between charities and policymakers matters immensely

The role of charities and their relationship with government has evolved through many incarnations. In the 19th century, voluntary organisations were the main providers of services, and charities continued to be significant service providers in many sectors after the establishment of a government-led welfare state underpinned by the Beveridge Report. In recent decades, governments have continually rethought the role of civil society and how it should relate to the state. New Labour championed ‘partnerships’ with the ‘third sector’ and developed the Compact – a voluntary agreement between the public and third sectors, first introduced in 1998 and renewed by the coalition government in 2010.<sup>140</sup>

The Cameron government shifted their approach, speaking about the ‘Big Society’, although the context of significant spending cuts meant this was seen as resulting in communities having to step in to run services as government provision was reduced. In 2018, Dame Julia Unwin’s Civil Society Futures inquiry<sup>141</sup> was published, and in the same year the government published a Civil Society Strategy,<sup>142</sup> both emphasising the importance of civil society and proposing ideas which this Commission has built on.

More recently, Boris Johnson commissioned Conservative MP Danny Kruger to consult with civil society representatives and ministers in order to develop proposals to maximise the contribution of charities and volunteers to the government’s levelling up ambitions, aiming to sustain the impressive community response to the Covid pandemic.<sup>143</sup> This was reflected in the Levelling Up White Paper that was published in February 2022, which emphasised the importance of social capital alongside economic capital, and was accompanied by a promise to develop a Strategy for Community Spaces and Relationships.

Throughout these shifts in emphasis, charities have remained a crucial part of our national life, with the nature of their relationships with policymakers affecting both the country’s direction of travel and day to day life for millions of people (as explored in detail in Section 2). Charities are major public service providers, acting alongside government to achieve shared goals. They provide unique evidence and insight to inform policy from groups government cannot reach alone. Charities also hold government to account, challenging and campaigning on behalf of their beneficiaries, and raising voices which would otherwise be overlooked or silenced. Within local communities, charities and voluntary groups bring people together, develop trust and social capital, and mobilise people to act together to address problems or make positive changes to their lives and places.

When the relationships between policymakers and civil society are healthy and vibrant, they provide both support and challenge which elevates the impact of each. When those relationships are weak or unhealthily strained, policymakers lose access to vital insight and connections, while charities can face an operating environment which frustrates rather than facilitates their work.

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<sup>140</sup> The [Compact: The Coalition Government and civil society organisations working effectively in partnership for the benefit of communities and citizens in England](#), HM Government, December 2010

<sup>141</sup> [Civil Society in England: Its current state and future opportunity](#), Civil Society Futures, 2018

<sup>142</sup> J Wright & T Crouch, [Civil Society Strategy](#), Department for Digital, Culture, Media & Sport, and Office for Civil Society, August 2018

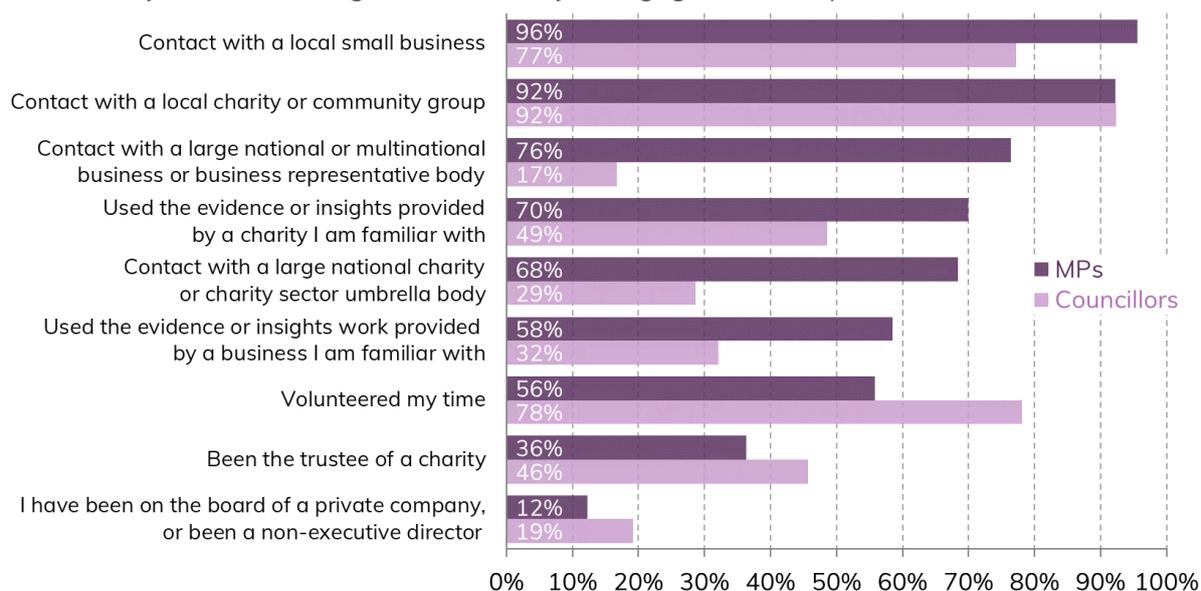
<sup>143</sup> Kruger, [Levelling up our communities](#)

## There is already a strong bedrock of respect and engagement

Nearly all MPs (92%) and councillors (92%) are in contact with a charity or community group, regardless of political party and across all parts of the UK.<sup>144</sup> Most use the evidence or insights provided by charities and very large proportions have in depth relationships as volunteers or trustees. More than half of MPs (56%) and three-quarters of councillors (78%) have volunteered with a charity in the past year. Around a third of MPs (36%) and nearly half of councillors (46%) have been trustees.

**Figure 18: Nearly all policymakers are in contact with charities**

Which, if any, of the following activities have you engaged in in the past 12 months?



Notes: MPs n=103, councillors n=556, participants could select as many responses as were applicable.

Source: Polling conducted by YouGov Plc on behalf of the Law Family Commission on Civil Society. Fieldwork was undertaken 6-27 July 2021

Policymakers are even more strongly convinced than the general public about the importance of charities to national and community life. Overall, 98% of both MPs and councillors and 95% of civil servants believe charities play an important role in our society, along with 84% of the public.<sup>145</sup>

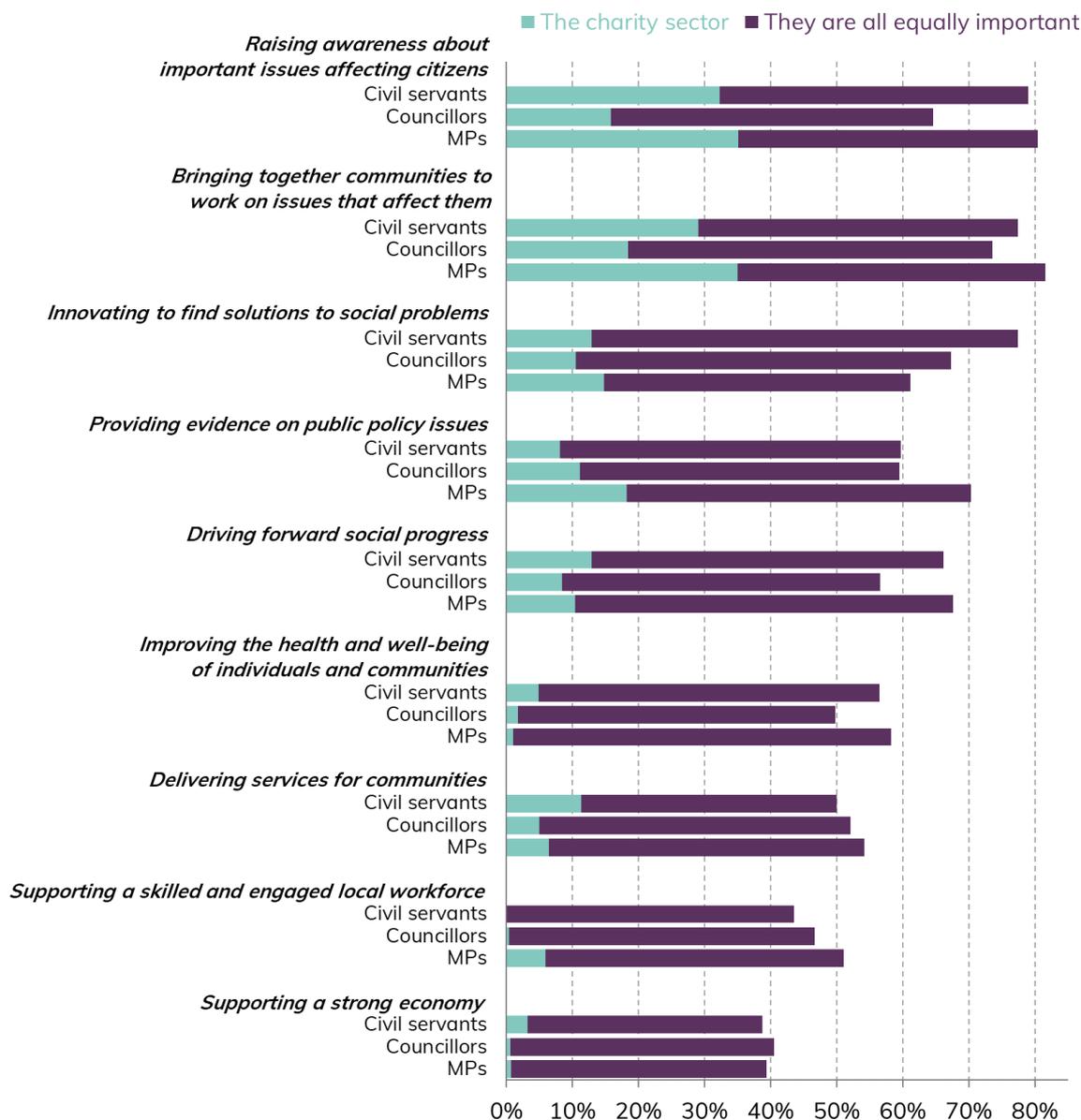
Most policymakers believe that charities are significant in achieving any number of positive outcomes for the country. Their most important roles are perceived to be: raising awareness of issues affecting citizens; bringing communities together to work on issues that affect them; innovating to find solutions to social problems; providing evidence on public policy issues; and driving social progress. Strikingly, policymakers acknowledge that the role of charities and community groups goes beyond service delivery, as the functions they fulfil in terms of innovation and driving change are also seen as important. And policymakers of all types and political persuasions trust charities to bring people together to address social issues in their communities.

<sup>144</sup> All figures on policymaker attitudes are from H Barnard & G Hoare, [A shared interest: The relationships between policymakers and charities](#), Law Family Commission on Civil Society, March 2022

<sup>145</sup> A Martin, *In the Public Eye: Snapshot of public attitudes towards civil society*, Pro Bono Economics, January 2020

**Figure 19: Policymakers believe that charities play an important role in achieving positive outcomes for the country**

Which of the following groups do you think are most important in achieving the following desirable outcomes for the country?



Notes: Civil servants n=62, councillors n=556, MPs n=103. Residuals are 'The state is most important', 'The private sector is most important' and 'Don't know'

Source: Polling conducted by YouGov Plc on behalf of the Law Family Commission on Civil Society. Fieldwork was undertaken 6-27 July 2021

Local councillors are particularly alive to the important role played by the social sector in offering local services and support to vulnerable people. Councillors describe the great value of being able to direct residents to charities when they are approached for help.

*“What will often happen is that a resident will contact us then we visit them and we realise they have multiple needs. We might do a referral or tell them about the free food store locally. Charities might come to us for funding or publicity – can the councillors use their links into business and the community?”*

*- Labour councillor*

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## Overcoming current gaps, weaknesses and tensions would bring even greater mutual benefits

Despite the many positive connections and high level of mutual respect between policymakers and charities, there are concerning tensions, gaps and weaknesses. One of the most worrying gaps in the relationship between charities and policymakers is the lack of contact with officials. Civil servants lag far behind elected politicians, with nearly half (45%) having no contact at all with charities. This means that a large segment of those developing, assessing and recommending policies are missing out on the insights and evidence that charities can bring to their work. It also means that many of the people who play an enormous role in shaping the environment in which charities operate are doing so without input from the organisations and volunteers whose vital work they might be helping or hindering.

Even among groups of policymakers with very high levels of contact with the social sector, there appears to be patchy understanding of the wide range of roles that charities play in the UK's society and economy. For example, charities are not seen by many policymakers as playing an important role in supporting a strong economy or a skilled and engaged workforce, despite the sector directly employing almost 1 million people and providing as much training as local authorities. This lack of awareness also risks policymakers not recognising the vital intelligence and insight that charities can offer to help shape economic policy and interventions at both national and local level, in order to ensure policymakers deliver on their goals.

Similarly, providing services and helping vulnerable people are seen by the public as the most important roles charities play,<sup>146</sup> but do not seem to be as prominent in the minds of policymakers. Only about half of policymakers (54% of MPs, 52% of councillors and 50% of civil servants) perceive charities to be either the most important sector or equally as important as the state and the private sector in delivering services.

Views about some aspects of charities' roles and performance are more polarised, with significant differences emerging between those of different parties. Overall, Conservative MPs and councillors tend to have less trust in charities than do Labour MPs and councillors. This is the case in relation to charities' evidence about the scale of problems and the views of their communities, and also whether they provide services reliably and on budget.

When it comes to campaigning, many Conservative MPs believe that charities should not campaign to change policy if they receive public money through contracts or grants. There have also been a range of concerning interventions from within and around government apparently intended to restrict charities from carrying out their vital campaigning role. Research carried out by the Sheila McKechnie Foundation in 2018 found that many campaigners felt this role was under threat, and that the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014 (usually called 'the Lobbying Act') had resulted in charities feeling less able to represent the views of those they worked with and operating less effectively and efficiently than previously.<sup>147</sup> Later studies found that, in both 2020 and 2021, many campaigners believed that attitudes among both politicians and the media towards civil society campaigning had become more negative over the

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<sup>146</sup> A Martin, *In the Public Eye: Snapshot of public attitudes towards civil society*, Pro Bono Economics, January 2020

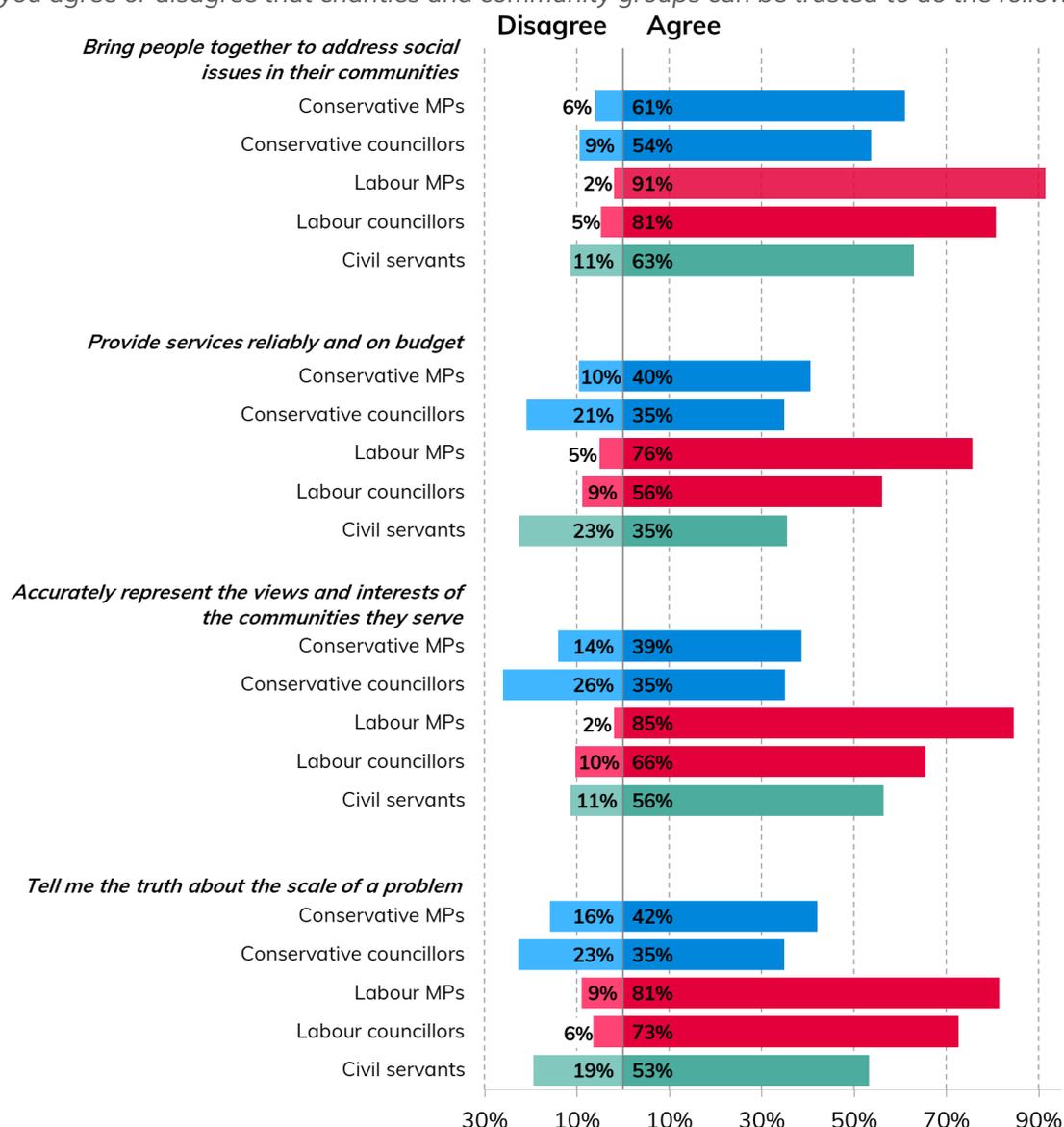
<sup>147</sup> *The Chilling Reality: how the Lobbying Act is affecting charity and voluntary sector campaigning in the UK*, Sheila McKechnie Foundation, 2018

preceding year.<sup>148</sup> Many charities feel that pressure to reduce or restrict campaigning activities has continued in recent years, including instances where charities have been actively excluded from government advisory groups after criticising government policy.<sup>149</sup>

However, it is important to note that the view expressed by Conservative MPs about the legitimacy of charities campaigning when they receive public funding is not the view of most Conservative councillors, or Labour MPs or councillors, or civil servants. Among civil servants, the majority trust charities to represent the views of their communities and tell them the truth about the scale of a problem, but only a third (35%) trust charities to provide services reliably and on budget.

**Figure 20: Labour politicians are considerably more likely to trust charities**

*Do you agree or disagree that charities and community groups can be trusted to do the following?*



Notes: Conservative MPs n=51, Conservative councillors n=179, Labour MPs n=37, Labour councillors n=186, Civil servants n=62. Residuals are 'Neither agree nor disagree' and 'Don't know'

Source: Polling conducted by YouGov Plc on behalf of the Law Family Commission on Civil Society. Fieldwork was undertaken 6-27 July 2021

<sup>148</sup> [SMK Campaigner Survey 2021: results](#), Sheila McKechnie Foundation, 2021

<sup>149</sup> For example: H Summers, [Government drops maternity charity after critical tweets](#), Guardian, 2022

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## The level and quality of engagement can be improved at every level

There is appetite among all groups of policymakers for greater engagement with charities, and scope to improve the quality of relationships across the board.

To improve relationships with MPs and influence them more effectively, some charities need to develop more tailored and personalised communication. MPs are alienated by what they view as 'broad brush' or 'saturation bombing' approaches.

*“[Charities] often use campaign emails, all identical – ‘dear brackets’ and ‘insert name here’, which does nothing other than to turn the MP against whichever organisation.”*

*- Conservative MP*

*“There are some [charities] that are much better at engaging [with MPs] than others – I’m a firm believer in an ongoing relationship rather than a crisis relationship. Those that have regular contact rather than [saying] ‘we haven’t spoken to you for a couple of years but could you do something about this’ – you get charities whose only engagement is to send you their annual report [so that] they can report back to their bosses saying ‘we engaged with parliamentarians’.”*

*- Labour MP*

*“Targeted lobbying is very effective – you work out who on the Health Select Committee might be sympathetic to your cause and speak directly to them [with] very carefully worded letters, etc. PPSs [Parliamentary Private Secretaries] and select committees are where to start. But the mass of shrapnel landing on my desk? I just press delete.”*

*- Conservative MP*

MPs also feel that charities are held back by a lack of understanding about the mechanics of government and the role of MPs, with some also acknowledging that MPs lack understanding of the social sector, a view echoed by charities.

*“The broader issue is that the role of charities and our operating environment is not always well-understood by government”*

*- Large charity*

Councillors want to increase their understanding of charities and to receive more detailed, frequent information from the sector. In particular, councillors and charities both feel they would benefit from a clearer understanding of each other’s responsibilities and areas of policy interest.

*“It’s probably not clear which councillors specialise in which areas – charities could look at registers of interest – but I appreciate that this is buried in the council website. We have an external partnership committee which can decide on which charities to help but we get little lobbying.”*

*- Labour councillor*

*“[It’s] not very easy to navigate [the charity sector] – you don’t exactly get a list of who to approach as a new councillor.”*

*- Conservative councillor*

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***“What hinders more collaboration is that we don’t speak each other’s language. We are aliens to each other’s lived everyday experience.”***

*- Small charity*

Like MPs, civil servants are frustrated at the lack of understanding among charities about how government and the civil service works and a perceived lack of professionalism in some of their interactions.

***“Charities don’t understand how the government works – but they think they do. In general, policy people in charities haven’t worked in government. They tend to see having their CEO meeting with the minister as the main goal, and don’t understand that more influence can be achieved through good strong working relationships with [Grade] 6s and 7s responsible for policy areas. For instance, the week before the Spending Review, they send stuff over. Instead, these are needed a couple of months prior with a ‘can we meet about it?’ ask.”***

*- Civil servant*

***“Charities don’t understand the operating environment of government. The conversation can be shut down if their asks are completely out of step with government policy – they don’t understand the messy space that is policy development.”***

*- Civil servant*

Similarly, charities often feel that there is weak understanding in government about their role, and that the policymaking process is not accessible to them.

***“Too often, central government’s engagement with the voluntary sector is not accessible or meaningful. Short consultation timescales, such as on the immigration plan, which was open for just six weeks - with announcements in the Queen’s Speech just days later - leaves little scope for meaningful influence.”***

*- Lloyds Bank Foundation*

***“There is a very weak understanding of civil society in public sector policy formation and implementation. In part this is around process, in part it is around cultural differences.”***

*- Pilotlight*

In 1998, the incoming Labour government created the Compact – an agreement between the government and civil society, which was then renewed in 2010 by the coalition government<sup>150</sup> before falling into disuse in recent years. The Compact set out how both sides would behave and work together. It was a two-way agreement. The government made commitments including to: “Respect and uphold the independence of civil society organisations (CSOs) to deliver their mission, including their right to campaign, regardless of any relationship, financial or otherwise, which may exist.” The commitments from civil society organisations covered issues such as: “When campaigning or advocating, ensure that robust evidence is provided, including information about the source and range of people and communities represented.”

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<sup>150</sup> The [Compact: The Coalition Government and civil society organisations working effectively in partnership for the benefit of communities and citizens in England](#), HM Government, December 2010

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Over the years, there has been fierce debate about the effectiveness of the Compact and the extent to which it genuinely transformed working relationships between policymakers and civil society. However, it was a striking statement of the importance placed on this relationship by the governments of the time, and the scale of ambition both sides had for what they could achieve together. It is time for the relationship between policymakers and civil society to be seen once again as a high priority and to revive the spirit of collaboration and ambition reflected in the intentions of the Compact.

The Commission believes this should include taking three steps that would achieve significant improvements in the relationships between national policymakers and charities.

**First, both sectors should create more opportunities for civil servants and charities to work together and develop mutual understanding.** This would bring benefits not only to the charity sector but also to the civil service. In particular, achieving this would help deliver the commitments in the 2021 Declaration of Government Reform for the civil service to become more porous, bring in more outside perspectives and expand secondments. It would also support skills development within the civil service, especially in relation to collaboration and partnering.

Additionally, the senior civil service and sector umbrella bodies should together hold an annual event for permanent secretaries and social sector leaders to come together and identify priorities for joint work in the coming year, such as takes place with business leaders (nicknamed ‘Chevening’ events, though they no longer take place at Chevening). Some problems in the sector – such as improving funding models or skills in the sector – can only be solved by efforts across Whitehall, and an annual event to agree how departments and the sector can work together could precipitate significant movement from both sides.

The Cabinet Office should also lead a campaign across departments to promote greater take up of secondment and volunteering opportunities within the charity sector. This should include developing and promoting a greater range of models for volunteering, especially the value of civil servants becoming charity trustees or contributing professional skills (such as HR or data expertise) in small portions of time. It should include showcasing the excellent examples which already exist across the civil service and linking civil servants with platforms such as Pilotlight, the Media Trust, Pro Bono Economics and LawWorks to match their skills with charities which need them. The campaign should be supported by a commitment to expand the current Charity Next scheme run by the Whitehall & Industry Group (WIG) for ‘fast streamers’ to spend six months in a charity, opening up these opportunities to non-fast stream civil servants.

Finally, the National Leadership Centre should work with charities involved in public services to design a programme of education and training events for the sector, aimed at increasing understanding about government structures and policymaking processes.

**Second, each UK government department and devolved government in the UK should increase the representation of relevant social sector organisations within formal advisory and engagement structures.**

There are a range of formal routes through which governments consult external stakeholders. Charities are included in many of these, but there is considerable scope to improve this representation.

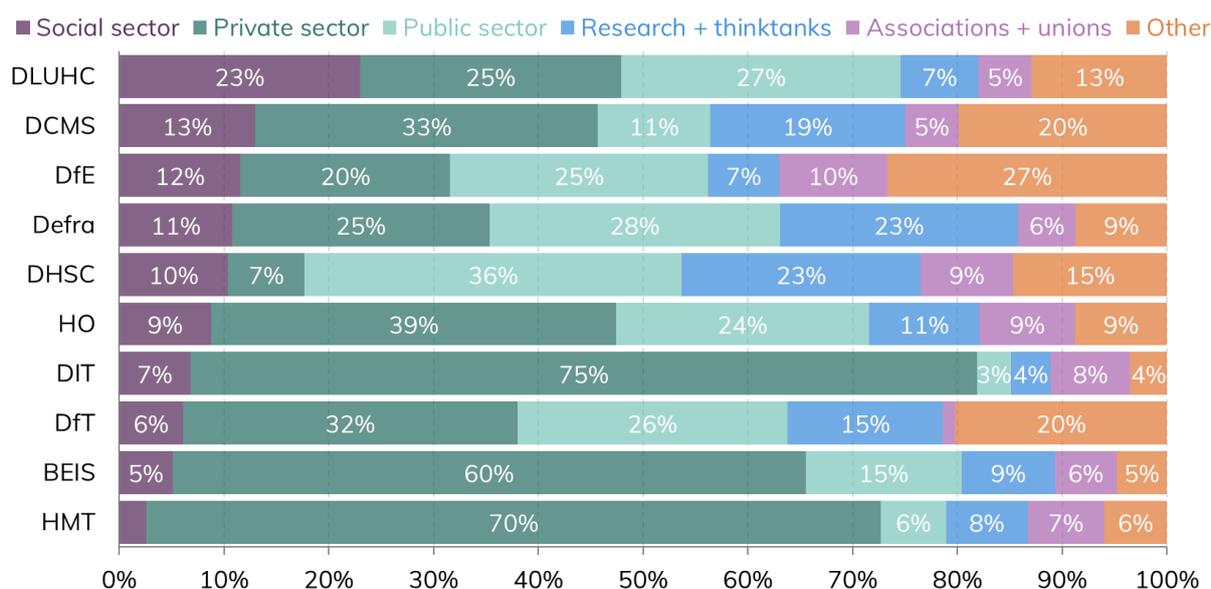
One example is the make-up of UK government departmental advisory groups. Overall, social sector representatives comprise almost 10% of members of these groups, which is reasonable considering the proportion of the economy made up by the sector.<sup>151</sup> However, they are significantly under-represented on groups advising departments which focus on the economy. This should be urgently corrected. As noted above, charities contribute an enormous amount to the UK economy, and possess valuable insights – including on people who are not in work, a group of the population that the private sector can provide only very limited insight into.

Senior politicians and civil servants should also make it clear that charity representatives are not to be excluded or removed from such advisory structures as a result of making legitimate criticisms of government policy (assuming there has been no breach of confidentiality or use of information received in confidence as part of their role).

Devolved governments in Scotland, Wales and Northern Ireland should likewise review their engagement with civil society and ensure that the sector is fully involved across every area of policy.

**Figure 21: Social sector representation on government advisory groups is variable across departments**

Membership of UK government advisory groups by sector and department



Notes: Data compiled using the most recent departmental transparency releases that were available at the time of the research (September 2022). These releases covered Ministerial meetings between October 2020 and March 2022. Advisory groups have been identified as meetings which Ministers declare holding with consistent groups of attendees on a quarterly basis, and which are listed on UK.GOV as 'groups'. 'Inactive' advisory groups have not been included if there is record or indication of them ceasing to meet, or no activity related to the group has been published since 1 January 2021. Advisory groups where the secretariat is solely provided by non-ministerial departments, agencies and public bodies have not been included. Charities and community groups are categorised as 'social sector'. Public sector organisations including regulators are categorised as 'public sector'. Business umbrella organisations and individual companies are categorised as 'private sector'. Universities, research organisations and thinktanks are categorised as 'research + thinktanks'.

Source: PBE analysis of Gov.uk

<sup>151</sup> N Sykes, [Closer connections: the social sector's voice needs to be stronger in government](#), Law Family Commission on Civil Society, September 2021

**Third, funders must support efforts to improve charities' capacity** to produce high quality, robust evidence (both in relation to public policy and to demonstrate their own effectiveness), and trustees must ensure that charities' campaigning and influencing activity is professional and appropriately targeted. Achieving this will require the social sector itself to develop, supported by funders shifting their practices to support organisational capacity building and high-quality campaigning. Currently, the finance landscape for charities makes it extremely difficult for many charities to invest in their skills or capabilities (as discussed above in chapter three and five examining sector productivity and finance). In relation to support for campaigning specifically, research carried out in 2022 for the Civic Power Fund estimated that only around 4-5% of UK foundation giving went to support work to address the causes of social injustice and bring about systemic change, through activity such as community organising, access to justice or advocating for change.<sup>152</sup>

The action necessary to improve relationships between local policymakers and charities will vary from place to place and are discussed below in chapter eight.

Taking these steps, policymakers and civil society organisations can together create more fruitful and productive relationships. This would help to increase the effectiveness of public policy, strengthen civil societies, enable charities to maximise their impact and support an operating environment that contributes to the sector's resilience and effectiveness.

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<sup>152</sup> J Cracknell & E Baring, [Funding justice vol 1: social justice grant-making in the UK](#), Civic Power Fund, 2022

## 8. Unleashing potential for places

*"Charities and community groups play a unique role as trusted service providers and advocates. When people are disaffected with local authorities or social services, it is often charities and community groups they turn to for help. Charities have the flexibility, empathy and speed of delivery that enables them to find and put in place the innovative solutions needed." – Baroness Valerie Amos*

### Box 17. Local places: Findings and recommendations

#### Findings

- Relationships with local policymakers, businesses and other stakeholders are central to enabling civil society to fulfil its full potential across the country.
- Effective collaboration between local civil society organisations and local policymakers brings enormous benefits to both.
- Civil society organisations are more able to achieve positive change for their communities and beneficiaries, access funding and support, and create an operating environment in which they can thrive.
- Local policymakers gain greater insight into the needs of their area, improve their services and tap into community resources and innovative ideas.

#### Recommendations

- Local policymakers and civil society leaders should shift from fragmented individual relationships (often transactional and focused on procurement or funding) to creating strategic relationships with the social sector as a whole.
- Local authorities need capacity internally to create and sustain relationships with civil society. This means dedicating staff time and resources to this.
- Local civil society organisations must be willing and able to work in a coordinated way, engaging strategically and looking beyond individual organisations' interests. Effective, independent and well-resourced local infrastructure is vital for this.
- Senior leaders on all sides must demonstrate commitment to this vision. Strong personal relationships across sectors are crucial, with effective structures and processes to spread joint working throughout organisations and avoid over-dependence on specific individuals.
- Civil society organisations need funding which enables them to engage effectively in strategic relationships and promotes collaboration rather than competition.

### Applying the lessons of the Commission to the local context much of civil society operates in

The majority of civil society organisations are locally focused, either as groups arising from within a community or as local branches of large or medium-sized charities. National level policymakers - in both the UK and devolved governments – have enormous influence on the operating environment for these organisations. However, local policymakers and local businesses are often decisive factors shaping what civil society can achieve and the experiences of the communities it serves. This section brings together the Commission's research and policy with lessons drawn from examples where leaders have put some of

these ideas into practice. In particular, these highlight the importance of creating the right resources, relationships and infrastructure to maximise the impact of a strong local civil society working effectively with other actors in the area.

As with any local phenomena, there is immense variety across the country in the nature and trajectory of relationships between civil society and other local actors, in the barriers to success faced by all stakeholders, and in the solutions they find to overcome these. But research has shown that there are recurrent themes which arise from this rich tapestry.

There are common experiences of the benefits that accrue for both civil society organisations and local policymakers when relationships are effective, as well as common barriers to creating and sustaining optimal approaches to joint working. And there are many examples of places which have developed highly effective solutions to these challenges, which can be taken up, replicated and further developed by leaders in other areas.

#### **Box 18. Case study: Kensington and Chelsea**

Kensington and Chelsea Council works closely with local charities and community groups, with the importance of those partnerships brought into especially sharp focus after the Grenfell tragedy. The council has used participatory budgeting to shift power from council officers to empower residents. Over the last three years, they have provided grants to community initiatives based on decisions made by residents through a scheme called the Grenfell Projects Fund. During this period, 1,400 residents have voted to allocate over £1.2 million to 40 projects.

Following a review of funding processes, the council recently established a new programme called the Voluntary Sector Support Fund, which enables operational viability for the charities, so some can deliver council statutory services and others can apply for funding for specific projects from external grant-makers. They also aim to reduce the administrative burden on voluntary organisations by trying to harmonise the paperwork that different council departments require for procurement and compliance.

The council also aims to increase links with businesses and grant-makers, running a Funders Forum, networking events and funding masterclasses to help small organisations fill in grant forms and apply to a diverse range of sources.

Its data shows that grantees are delivering more community activities to increased numbers of residents (now reaching around one in every eight residents), attracting rising numbers of volunteers and securing more successful applications to other funders.

### **Effective collaboration enables local policymakers and civil society organisations to better serve their communities**

For civil society organisations, good relationships with their local authority and other local policymakers can significantly increase their influence, impact and provide access to resources including funding. Research carried out by Locality for the Local Government Association (LGA) has drawn together many examples from across the country and identified

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consistent benefits for both policymakers and civil society from getting these relationships right.<sup>153</sup> Such a collection of best practice was advocated for by the Commission in 2021.

There are clear benefits for both local authorities and local groups from working together. Being able to insert the insights, experiences and needs of those they support into policy decisions can be one of the most important ways charities and community groups achieve their goals. When these organisations play a full role in shaping their local economic and social environment, it can improve the wellbeing, health and resilience of a local community, as well as connecting local people to opportunities and improving their prospects for the future. For local policymakers, working well with their local civil society enables them to understand current and future local needs, deliver better services, innovate to develop new solutions and tap into community resources.

### **More effective collaboration starts with a shift to strategic relationships, with a shared purpose and shared sense of a local eco-system focused on meeting local needs**

A common theme arising from descriptions of local relationships that are not working well for either side is of fragmentation, with myriad individual relationships between policymakers and local groups but little coordination or collaboration outside specific projects or contracts. Often these also tend to be ‘transactional’ – concentrated on procurement and delivering pre-determined services, accompanied by tight monitoring requirements.

The slide into these types of relationships has been shaped in part by the financial environment of recent years.<sup>154</sup> Big cuts to local authority budgets, as well as to those of many other public service providers, has led to reductions in staff and reduced capacity to build relationships and take the time to work collaboratively. This has been exacerbated by short-term funding settlements and uncertainty about future funding for councils. Changes to local and central government funding have also affected civil society, with those in deprived areas in particular seeing big cuts to grant funding, and local social sector infrastructure being weakened and fragmented as a result.

However, despite this challenging environment, there are many places in which local policymakers and local civil society organisations have recognised the lost opportunities to achieve more together, and have come together to reset and reimagine their relationship. The experience of these places suggests that such a reset begins with a recognition on both sides that a more strategic relationship is necessary, with the development of an agreed vision, a joint purpose, and a shared desire to shape a local ecosystem of organisations working together and all focused on meeting the needs of local people.

***“Having a strategy that is for civil society...is very different than seeing the voluntary sector through the lens of its delivery of services. And I think that's quite an important distinction that isn't very often made... Because it actually it's not about what the sector is doing for us... I think it became more powerful by being a strategy in its own right, around the sector in its own right.”***

*- Lydia Jackson, Kent County Council*

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<sup>153</sup> Locality, The state of strategic relationships between councils and their local voluntary and community sector, Local Government Association, December 2022

<sup>154</sup> Locality, The state of strategic relationships between councils and their local voluntary and community sector, Local Government Association, December 2022

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***“During the pandemic, I think they realised that we were worth listening to, because we actually helped significantly. I think the pandemic, as terrible as it was... did help shift opinion... It helped them understand much more the value of the sector and exactly what the sector does.”***

*- Josephine McCartney, VCSE Steering Group for Kent and Medway*

Once this ‘reset moment’ happens and a more strategic relationship is established, local policymakers can draw on the insights and ideas of civil society at an early stage in planning, and civil society organisations can influence the shape of services, spending and development, rather than simply being asked to tender for contracts which they may not feel are well-designed or targeted.

***“[In the past] some of the [financial] decisions...were made without any consultation with the sector whatsoever... We were raising a really big red flag...and they just ignored it. Versus tomorrow, we actually have a proper consultation [with Kent County Council (KCC)] to talk about what are they doing this year...it's a step in the right direction.”***

*- Josephine McCartney, VCSE Steering Group for Kent and Medway*

***“I think we've made progress most recently, KCC...have met with the VCSE Steering Group, and we have talked about what we think the [financial] priorities are, and they've been really open... Well, that compared to where we were seven years ago, we've travelled a huge distance.”***

*- Sally Williamson, Salus*

This shift to a strategic relationship focused on a shared vision for meeting local needs can be greatly strengthened by the creation of resources which bring together information about the whole range of organisations operating in an area, and sharing data (with due care for GDPR considerations) to support better assessment of community needs and identify gaps in services.

For example, the Salford Anti-Poverty Taskforce is a partnership between the University of Salford and Salford City Council which is focused on better data collection and use to provide services which combat poverty.<sup>155</sup> Similarly, the Norfolk Community Advice Network (NCAN) is a partnership between community and faith groups and the council. It provides a referral system to help professionals and service users more easily find the right help, and a directory of members covering all the relevant organisations working in the area. NCAN also aims to share knowledge and data among civil society and council organisations to help coordinate support and avoid duplication.<sup>156</sup> In London, the boroughs of Islington and Richmond both have directories covering the local community and voluntary sectors, managed by Voluntary Action Islington and the Richmond Council for Voluntary Service (CVS) respectively.

Such guides and directories can be valuable for policymakers, as well as service users and providers, as many councillors and officers do not find it easy to understand and navigate their local social sector (as discussed above).

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<sup>155</sup> Salford Poverty Reduction Partnership, 2021, No one Left Behind: a Strategy to prevent and reduce poverty in Salford 2021-2024

<sup>156</sup> Locality, The state of strategic relationships between councils and their local voluntary and community sector, Local Government Association, December 2022

## Local authorities need to create capacity internally to build and sustain relationships with civil society

A common thread through most accounts of highly effective joint working between local authorities and civil society is the need for local authorities to have staff internally with the time and resources to devote to understanding their local social sector, build relationships and develop processes to support collaboration.

*“Angus actually has a really good mechanism, known as the External Funding Department. This is a department specifically set up to help support organisations get funding. They’re aware of all the grants that are coming in from trusts, from the national government, UK government, and as they come in, they’re analysing them, they’re building up a database of local organisations. And they will then help support them to write applications. If you haven’t done an application before, they’ll come in and they’ll talk [you] through the process. I think it’s a really good example of best practice. And I think in that respect, Angus Council does a great job.”*

*- Kirrie Connections*

*“In London, we’ve seen numerous examples of positive engagement between local government and civil society. At a regional level, the Greater London Authority’s Community Engagement team has shown a demonstrable commitment to enabling civil society to grow, develop, and have a voice ... As a political institution, it has recognised that civil society is an equal partner in making London fairer for everyone.”*

*- London Funders*

In Kent, the council’s willingness to invest resources dedicated to engagement and strategic development with the sector has been crucial. Having an ‘anchor point’ operating outside of KCC’s commissioning function allowed the relationship to be established at the more strategic level and sent a strong signal to the sector that the local authority was committed to a new approach.

*“I think that the visibility of a dedicated role probably helped, and also showed...that we were committed to having better working relationship with them.”*

*- Lydia Jackson, Kent County Council*

Importantly, this resource is not only able to act as a touchpoint for the sector, but also as an advocate for the sector internally within the council, as it helps to collate evidence of the sector’s scope, scale, and value in the area; is able to influence policy and decision-making internally; and helps to shape a new institutional approach to civil society.

### Box 19. Case study: Derby

The research carried out by Locality for the LGA highlighted Derby as an example of effective collaboration between local policymakers and civil society.

Several years ago, the council created a Community Leadership Manager to develop a stronger working relationship with local voluntary and community organisations. With support from other leaders in the council’s Communities Team, this manager moved the council’s relationship with the sector away from ‘transactional grant funding’ and towards

"a transition of power back to the VCS." They created the Stronger Communities Board, with the council's Communities team and local civil society leaders. It was described to Locality's researchers as a "Trojan horse for the voluntary sector to occupy the council house" intended to be led by civil society organisations.

The process of rebalancing power towards civil society has necessitated new approaches from both the council and the social sector, including creating informal spaces for "problem-solving, action learning and open communications". This includes an informal Community Power Network, with leaders from the council and the social sector meeting fortnightly to share ideas, resources and support one another to develop effective collaboration practices.

The shift in approach has meant that civil society is brought in early to the process of developing projects, which has improved decision-making and design and has also helped leverage more external funding for charities and community groups.

### Local civil society organisations need to be willing and able to work in a coordinated way and have the capacity to look beyond individual organisational concerns

Establishing effective relationships does not only depend on capacity and commitment on the side of local policymakers. It also requires the local social sector to be willing and able to 'step up' and show they have the ability and willingness to be a strategic partner.<sup>157</sup> Local civil society organisations need to be willing to work together, to engage collectively and to look beyond their individual organisational interests.

Local authorities, grant-makers, commissioners such as the NHS, and other funders all have a role to play in ensuring that charities and communities are able to access funding that allows them to engage effectively with local policymakers, as discussed below and in section five.

Success in this space is often greatly helped by the presence of a strong local infrastructure player, whether an umbrella body such as a CVS or a Community Foundation. The value of such a player lies not only in their capacity to spend time building relationships, consulting with others, and thinking strategically. It also comes from the ability of local infrastructure organisations to play an independent role, ideally as an entity not reliant on contracts from the local authority or other service providers for funding, and not forced to compete for contracts or grants with other local charities.

*"Josephine [McCartney] from Kent Community Foundation...she doesn't have any skin in the game in terms of money from KCC. She's been quite influential in being able to advocate for the sector... You need people who are willing to put their head above the parapet...[but] there's lots of risks in doing that... Josephine is in a position where she can be slightly more challenging, and she can be slightly more robust, because she doesn't have anything to lose."*

*- Sally Williamson, Salus*

<sup>157</sup>Locality, The state of strategic relationships between councils and their local voluntary and community sector, Local Government Association, December 2022

As discussed above, the Commission also believes a root and branch review of local infrastructure is needed. This should be followed by collective action from national and local governments, other funders and the sector itself to revive local infrastructure where it has become too weak. This should also ensure this renewed infrastructure is shaped to deliver the productivity, effectiveness and collaboration which the Commission's research has found is needed to unleash the full potential of both local and national civil society.

### **Leadership and relationships are the bedrock of effective collaboration, backed up by effective structures**

Where local areas have achieved a reset and shift to strategic relationships, a shared vision and effective collaboration, two factors are generally seen as critical: senior leadership and a focus on relationships.

Locality and LGA research identifies senior strategic leadership as an important first step for councils looking to create the right approach to their relationships with civil society, finding that both cabinet and senior management team buy-in are vital to incorporate partnership working into the council's identity. Their participants recommend having both a corporate director and cabinet member who are responsible for leading this work.<sup>158</sup> In Kent, for example, as part of the local Resilience Forum architecture, they established a group with civil society leaders in the immediate emergency response at the start of the pandemic. This then evolved into a Voluntary Sector Steering Group, with its chair also a member of the council's recently-formed Strategic Partnership Board. The new engagement mechanism established a focal point for civil society leadership and advocacy through the steering group, and it acted as a conduit between both parties through the Strategic Partnership Board.

Strong personal relationships at a range of levels are the second factor which enables a shift to more effective collaboration. In Kent, these were described as crucial to underpinning the creation of more formal structures and processes:

***"I think personal relationships are the absolute key to everything that you're doing... Having the conduit through which we can communicate more transparently, yes, we need to have those good relationships to allow that to happen."***

*- Sally Williamson, Salus*

The research also highlighted the importance of a "relational culture: behaviours and ways of working that enable the power of community to flourish, with both sides giving generously to the process and being open to receiving feedback". This prompts policymakers to view their role as enablers of action across the local eco-system, not simply as commissioners or service providers.

One example is the Barnet Together Alliance,<sup>159</sup> a long-term partnership between voluntary, community, faith groups, social enterprises and the local council. Crucially, the council (which primarily funds the alliance) is seen as a partner within the group, rather than a commissioner or leader. Another is Calderdale, where the council believes that working strategically with its local civil society in this way means that these organisations can directly influence decisions, helping to rebalance power. Through boards and partnerships focused

<sup>158</sup> Locality, The state of strategic relationships between councils and their local voluntary and community sector, Local Government Association, December 2022

<sup>159</sup> Barnet Together: <https://barnettogether.org.uk/>

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on several areas of policy, multiple working relationships have been established between the local social sector and council directors and elected members.

### Fixing the funding unlocks enormous potential

The final factor which can enable or restrict relationships between local policymakers and civil society is the nature of the funding that flows to the social sector. Two issues arise in relation to this.

First, the extent to which local civil society organisations are reliant on short-term, restricted funding which can prevent them from investing in developing skills, capabilities and strategic thinking, as discussed above.

***“Short-term funding streams from funders can mean that charities struggle to invest in their core infrastructure and think long term.”***

*- National Network of Foundations<sup>160</sup>*

Research by Neighbourly Lab for the Commission found that the flow of funding to local civil society organisations led to them being invited to ‘do delivery’ but being shut out of the process of identifying needs and priorities, carrying out planning and designing solutions.

***“VCOs are often given invitations to tender for delivery opportunities that are either not suitable for them or for the long term needs of the local area as a consequence of them not being involved in the development of these tenders.”***

*- Charity Worker*

The second issue, which looms especially large in discussions of local relationships, is the competition between civil society organisations which current funding systems often create, which can deter cooperation and collaboration between civil society organisations.

***“The funding system is not set up for collaboration - funders have massive demand and require grantees to measure impact which allows them to see the winners and losers on their grants.”***

*- Funder*

***“Capacity building for VCOs can lead to positional competition as lots of organisations become solely preoccupied with getting money and do not focus on collaborating with others in their area.”***

*- UK university professor*

Similarly, the Commission’s research into social sector productivity found that perceived competition made charities less willing to share data which could help other organisations identify ways to improve.

In Kent, reduced funding for the local CVS meant that it had to compete for funding with other civil society service providers. This eroded its perceived ability to also act as a coordinator and advocate for the sector because, as one social enterprise commented, it was acting as “the poacher and the gamekeeper” at the same time.

Rectifying these damaging flaws in the funding system for civil society organisations will require action on many fronts, as discussed above. Local policymakers, as well as local

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<sup>160</sup> Research by Neighbourly Lab for the Law Family Commission on Civil Society, Forthcoming

businesses and philanthropists who fund charities can make three important contributions to this:

- First, tilt more of their funding towards long-term, unrestricted grants, using approaches which place a high degree of trust in grantees;
- Second, ensure that contracts for service provision allow for full cost-recovery by civil society providers.<sup>161</sup>
- Third, provide flexible funding to support local social action. Research by Locality<sup>162</sup> with four local authorities identified this as an important step, funding events and community projects that create networks and community organising in areas with low engagement. Such funding can include traditional grants but there are also other forms of investment which are delivering both economic and social benefits across whole regions. These include social investment and other vehicles which blend grants, loans and wrap around support, enabling civil society organisations, especially community businesses, to take root and grow.

### Box 20 Case study – Kindred

Kindred is a social investment vehicle owned and led by a community of Socially Trading Organisations in the Liverpool City Region. It is funded by Power to Change and the Liverpool City Region Combined Authority, with the Combined Authority investing £5.5 million, matched by £1 million from Power to Change, in addition to loaning staff to set up the organisation.

Kindred offers ‘patient money’ through loans and grants, alongside peer support, specialist expertise and learning. The approach to paying back loans recognises the ‘double dividend’ of socially-traded organisations, with returns both from paying back money and creating social impact.

Kindred was developed by and with over 150 socially-trading businesses across the region. Its philosophy of ‘pay back and pay forward’ means that the money invested is used time and again. It is constituted as a Community Interest Company (CIC) and includes an ‘asset lock’, ensuring that the assets of the CIC (including any profits or other surpluses generated by its activities) are used for the benefit of the community. The evaluation of the Kindred pilot found that the investment supported socially-traded organisations which filled gaps in supply chains locally and addressed market failures that traditional business did not respond to. They offered the regional economy speed, agility and resilience.<sup>163</sup>

It is clear that the Covid pandemic led to some very significant and positive shifts in relationships between policymakers and their local civil society. New relationships were formed, new structures created, funding was rethought and made more flexible. Many policymakers gained a fresh perspective on the value and contribution of civil society. Civil society leaders came together to coordinate their efforts and stepped into new strategic leadership roles.<sup>164</sup>

<sup>161</sup> S Bagwell et al, Full cost-recovery in VCSE contracts, NPC, 2022

<sup>162</sup> T Armstrong, Power Partnerships: Learning on localism with four local authorities, Locality, 2019

<sup>163</sup> C Spriggs et al, [The story so far: evaluation of Kindred programme 2019 – 2021](#), Kindred, 2021

<sup>164</sup> N Pritchard & A Rose, [Coordination in place](#), NPC, 2021



There is tremendous hope in many places that these advances will be sustained, and that the myriad excellent examples of collaboration can be spread and picked up by leaders in more areas. Taking up this challenge will require change from civil society organisations, funders and policymakers. The benefits of doing so are immense, however, allowing every actor to achieve more and ensuring the greatest possible gains for local communities.

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## Conclusion

If the UK's economy is to grow, if it is to make meaningful social progress, and establish a new sustainable way of life, then all three of its sectors – public, private and social – must be firing on all cylinders and working effectively together.

The Law Family Commission on Civil Society brought together experts from each of the three sectors and consulted with hundreds of people from every walk of life. The Commission sought to understand the distinctive nature and contribution of civil society, its strengths and challenges, and to identify the best ways for it to unlock its full potential in the coming decade.

An integral part of the Commission's work was to consider the connections between civil society and both policymakers and businesses: to uncover examples of where these are working well and the benefits this generates; examine the barriers to greater and more impactful relationships; and consider how these barriers should be overcome.

The Commission's research has found immense appetite across all three sectors to join in this endeavour, with enormous energy and a plethora of good ideas. This report has laid out a programme of collective action to unleash even greater activity and impact across every part of the country, which has support from across sectors and from across political parties. It includes both incremental and ambitious proposals and builds on tried and tested examples of solutions drawn from all three sectors and from across the UK and the world.

It is clear that civil society is integral to achieving both economic and social progress, and it already makes enormous contributions to both. But it is also evident that it could achieve even more.

To achieve this, the Commission has recommended action from within civil society itself and by policymakers and businesses to drive:

- Greater productivity and organisational effectiveness across social sector organisations;
- More robust, timely and accessible data and evidence about, from and for the sector;
- Improved funding that invests in civil society organisations' ability to achieve greater impact, productivity and resilience;
- Increased links between businesses and civil society organisations; and
- Stronger relationships between national and local policymakers and civil society.

Adopting the proposals laid out in this report will better enable civil society to maximise its unique contribution to building and bolstering communities, campaigning to improve the country, and providing services, particularly to those who most need them.

While action is needed from every sector to deliver the change called for in this report, the private sector stands as perhaps the biggest untapped opportunity that civil society should be striving to grasp. And there is a vital leadership role for the UK and devolved governments to play in creating the conditions for these changes to take root. In recent years, the UK's political leadership seems to have lost the vision and spirit to understand, use and champion civil society. The time is now ripe for a reset: for every political party to reconnect with civil society and to recognise its central importance in enabling economic growth, social cohesion and wellbeing. As politicians and policymakers prepare for coming elections, the Commission

urges each of them to set out their vision for working in partnership with civil society, and a plan for how they will work across sectors to harness the ideas, energy and expertise that civil society possesses.

Taken together, this programme of improvements offers an inspiring vision of civil society by the end of the 2020s. Once enacted, the Commission would expect to see thriving charities, community groups, voluntary organisations and community businesses across the land – but, more than that, real change to people’s lives.

As a result of a more financially resilient civil society, with staff and volunteers equipped with the skills and resources necessary to achieve their purpose - feeling well-supported and full of energy and excitement – organisations would work more effectively with one another, with local businesses and with local policymakers. They would share insights and ideas, jointly shaping strategies to meet their shared vision of what their communities need and the strengths and assets they have to draw on. Every area would have an infrastructure organisation or partnership which drew the sector together, engaged strategically with policymakers and connected civil society organisations with the data, evidence and skilled support they need to maximise productivity and impact. Civil society organisations, policymakers and funders would have rich data at their fingertips. They would be robustly assessing the impact of their work, identifying ways to increase efficiency, effectiveness and impact and drawing out insights to inform future funding and policy decisions. Small charities and those led by and serving people from black and minority ethnic communities would have ready access to funding, along with support to help them develop strategies, access new income streams and draw on the skills and resources necessary to achieve their purpose and advance equity across the UK.

Civil society would truly be firing on all cylinders and collaboration between the social sector, businesses and policymakers would have increased the country’s resilience in the face of future shocks and crises, prevented problems arising, and increased the nation’s health, wealth and wellbeing.

Overall, implementation of these recommendations would mean a country in which more people receive better, faster, more targeted support from civil society when they need it, wherever they live. A country in which the voices of people who find it most difficult to be heard are louder in the rooms where decisions are made, lifted by a more diverse and representative civil society. A country in which a greater proportion of society’s problems are stopped before they start, with civil society better able to focus on prevention than on crisis, and with all three sectors working together to solve the totemic issues faced by all. And when crises do inevitably occur – whether for individual families or entire countries – people emerge from those crises more swiftly and less affected, as a result of a stronger, more responsive and better-led civil society playing its part to its fullest.

The prize on offer is significant and, crucially, within reach. Through strategic investment, from funders, this government and the next, in the productivity of the social sector, the data available to and about it, and in the changes needed to unlock philanthropy – alongside a dramatic acceleration in the partnership between civil society and business, and a reset of the relationship between civil society and government - civil society can be unleashed and a better Britain built for all.

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## Appendix: Summary of recommendations

### 1. Building productivity and organisational effectiveness

1. A radical shift in approach from funders is needed, away from short-term funding, restrictive grants and contracts, and towards support for core costs (including those associated with property where this is integral to charities' operations) and investment in people, processes and organisational development.
2. Government and funders should work together to create a new Civil Society Evidence Organisation (CSEVO), which is essential for improving the availability and spread of evidence across the sector, reducing duplication and increasing best practice.
3. UK and devolved governments should provide social sector organisations with access to and adaptations of centrally-funded productivity schemes currently restricted to businesses, and ensure these are designed and communicated effectively to support community businesses and social enterprises.
4. Led by a partnership between the Department for Levelling Up, Housing and Communities (DLUHC) and the Department for Digital, Culture, Media and Sport (DCMS), the UK government should carry out a 'root and branch' review of local social sector infrastructure, which is the first critical step towards revitalising local infrastructure, so that it can act as a 'diffuser' of evidence and knowledge; and a 'convener' to support collaboration, networking, peer support and information exchange among local charities, as well as connecting them to specialist skills providers.
5. The newly-created Vision for Volunteering team, business organisations and the UK Pro Bono Network should work together to maximise the level and effectiveness of skilled volunteering, which holds huge potential.

### 2. Creating timely, accessible data and robust evidence about the sector

6. The social sector must give more priority to its own data infrastructure. More charities should grasp opportunities to improve their collection and use of data; share the data they already hold, to increase evidence about what works and help them benchmark against peers; and commit to ethical use of data by committing to voluntarily apply the Office for Statistics Regulation's (OSR's) Code of Practice for Statistics where relevant.
7. Funders should encourage and support charities to collect, use and share high quality data. They should also share their own data and engage with initiatives such as 360Giving and independent benchmarks such as the Foundation Practice Rating.
8. As part of a campaign to accelerate the partnership between the private and social sectors, businesses with staff skilled in data collection and analysis should be actively encouraged to seek out opportunities to share these skills with charities.
9. UK and devolved governments should play a coordination and leadership role on social sector data, including by delivering the promised civil society satellite account, creating more data labs, and working with the sector to extract the data held about charities across national surveys and administrative records for use by both policymakers and the social sector itself.

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### 3. Improving the scale, distribution and impact of funding for the sector.

10. As part of a radical shift in their funding, more grant-makers should offer long-term, flexible funding, invest in building charities' capabilities, and streamline their application and management processes. They should be encouraged and supported in this by the Charity Commission, infrastructure bodies and independent benchmarkers, making this core part of how charities operate a priority.
11. The UK government should make use of the power it has to boost philanthropy, starting with the appointment of a Philanthropy Champion and a 'leveraging philanthropy' drive across Whitehall.
12. Local authorities and mayors should appoint local philanthropy champions, working with them to draw funding to those places which need it most, for instance through match-funding schemes.
13. National and regional policymakers should also increase access to other forms of finance, such as community shares and social investment, particularly for community businesses, and ensure the sector is equipped to make use of these income streams.
14. The Financial Conduct Authority (FCA) should use its powers over the relevant curricula to require both qualified and qualifying financial advisors to receive training on philanthropy and impact investing, as part of its work on Environmental, Social and Governance (ESG) responsibilities and the Consumer Duty.

### 4. Bringing businesses and civil society together

15. Business and charity infrastructure bodies should urgently form a partnership focused on raising awareness of the benefits of links among both businesses and charities, to create opportunities for both sectors to come together where they have shared goals, and to spread resources that provide both sectors with the tools to overcome the barriers to working together. Tackling the current cost of living crisis should provide the initial impetus and focus for this, given the relevance for both sectors.
16. Charities, businesses, investors and advisors should work together to improve the measurement of businesses' social impacts and the value of civil society partnerships, as well as to drive the use of voluntary disclosure initiatives to encourage more businesses to engage with civil society.
17. Civil society organisations should campaign with businesses and investors to drive behaviour change and increase take up of opportunities to work with civil society.
18. The UK government should aim to reinstate the requirement for businesses to report their contributions to charities and civil society. Ahead of mandating disclosure, it should incentivise more businesses to make voluntary disclosures to platforms such as the Workforce Disclosure Initiative (WDI) and the Business for Societal Impact (B4SI) database by linking tax relief and procurement to disclosure.

### 5. Strengthening relationships with policymakers

19. Charities and governments (both the UK government and devolved governments) should jointly create more opportunities for civil servants and charities to work together, through an annual 'Chevening' event for permanent secretaries and sector

leaders, revised training for civil servants, and increased secondments and volunteering opportunities.

20. The social sector should continue to increase the quality of its evidence and campaigning, enabled by more support from funders for these activities.
21. The UK and devolved governments should increase the representation of charities within formal consultation structures, such as departmental advisory groups, and ensure charities are not excluded from these due to legitimate criticism of government policy or practices.

## 6. Unleashing potential at local and regional level

22. Local policymakers and civil society leaders should shift from fragmented individual relationships (often transactional and focused on procurement or funding) to creating strategic relationships with the social sector as a whole.
23. Local authorities need capacity internally to create and sustain relationships with civil society. This means dedicating staff time and resources to this.
24. Local civil society organisations must be willing and able to work in a coordinated way, engaging strategically and looking beyond individual organisations' interests. Effective, independent and well-resourced local infrastructure is vital for this.
25. Senior leaders on all sides must demonstrate commitment to this vision. Strong personal relationships across sectors are crucial, with effective structures and processes to spread joint working throughout organisations and avoid over-dependence on specific individuals.
26. Civil society organisations need funding which enables them to engage effectively in strategic relationships and promotes collaboration, rather than competition.



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