Charities Aid Foundation, Autumn Budget 2024/Spending Review Representation

Summary

The Government should use this Budget and Spending Review as an opportunity to encourage an increase in philanthropic and charitable giving. There is a substantial opportunity to unlock more strategic giving including from major donors, corporates, and the public, and to direct this giving to support civil society, strengthen the UK's social fabric, and help deliver the Government's missions.

We believe the Government should use its first Budget and one year Spending Review to take the following steps:

- Take a strategic approach to philanthropy and charitable giving
- Set out how the FCA will get more wealth advisers trained to talk about philanthropy with their clients
- Reinstate mandatory reporting of charitable giving by companies
- Set up mission match funding pots
- Allow VAT relief on donations of goods from companies to charities
- Increase Gift Aid Small Donations Scheme (GASDS) limits in line with inflation
- Confirm the continuation of/speeding up of the Gift Aid review
- Deliver a prospectus of philanthropic investment opportunities
- Set up the first charitable action zones
- Support diaspora giving schemes
- Deliver Charitable remainder trusts
- Conduct an assessment of the strengths and capabilities of civil society and philanthropy as part of the Spending Review.

About the Charities Aid Foundation

The Charities Aid Foundation (CAF) is one of the UK's largest charities by income. For 100 years, we have worked with partners across industry, government, and individual philanthropists to ensure vital funding reaches charities across the globe. We work to stimulate giving, social investment, and to ensure the effective use of charitable funds. In the UK, CAF also owns CAF Bank Limited and CAF Financial Solutions Limited (CFSL). They help charities to manage their finances and funds so they can continue to support causes and communities that matter to them. In the last financial year, we distributed more than £1 billion to good causes in the UK and around the world.

Background

We believe that the Chancellor should use this Budget, one year Spending Review, and broader three-year Spending Review to boost philanthropy and charitable giving in the UK. Growing giving is a critical way of increasing funds directed towards the UK's national missions and strengthening our social fabric.

There is substantial scope to unlock more giving, including through initiatives that have minimal or zero cost to the public purse.

One opportunity is to encourage more donations from wealthy individuals. Donations from the wealthiest are not keeping pace with their rising incomes. With the biggest transfer of wealth in a generation already underway ensuring that the new generation of donors are supported to give is of vital importance.

There is also an opportunity to increase giving in specific parts of the country. We know that more people give to charity in wealthier areas, but there is more capacity to give in some places, with some parts of the South of the country 15% less likely to give than other places with equivalent incomes. This is particularly true in London: Birkenhead residents are just as likely to give as Londoners, despite it being much less affluent. There is also missing generosity in some richer places. Amounts donated per donor do not track affluence levels, meaning that donors in many southern places are less 'generous', donating a smaller share of their income than the rest of the UK.

There is also scope to unlock more corporate giving. Our forthcoming research into giving among the FTSE 100 found that donations from the UK's largest companies have declined by 34% in real terms between 2014 and 2023.

We can also attract greater giving from the public. Although our UK Giving Report 2024 showed a welcome increase in giving to £13.9 billion, this headline masks some worrying trends: The median donation to charity has remained static at £20 for the last 7 years, and the number of donors has not increased. Charities are reliant on a smaller cadre of generous donors, and it appears we are getting out of the habit of giving as a nation.

Our World Giving Index 2024 shows that the UK now places 22nd in the world , its joint lowest ranking, having fallen to the same level it was in 2020 when charitable activity was severely limited by the Covid 19 pandemic.

Against this backdrop, and in the context of the fiscal challenges that the UK is facing, building a strong culture of giving is important to work towards shared priorities, including on the Government's missions. Philanthropy can work alongside governments to deliver meaningful progress in areas of shared priorities, including tackling knife crime, reducing re-offending, addressing homelessness, tackling health inequalities and improving access to art, music and sport.

Budget measures should sit alongside a strategic approach to philanthropy and charitable giving

It is critical that the Government demonstrates a commitment to boosting philanthropy and giving from early on in its term of office. We believe the Government should do this by developing a national strategy for philanthropy and charitable giving to outline a medium to long term approach to boost donations.

Other countries have taken this step: Australia has an ambitious target to double giving by 2030, while Ireland has developed a national philanthropy policy.

Alongside inclusion of the suggested budget measures we have outlined below, we believe such a strategy should set out how philanthropy will have a strong presence in government. This should include a permanent, dedicated policy function for philanthropy; civil society and philanthropy being present on mission boards; a clear focus on philanthropy in every relevant government department; activity to champion philanthropy at a local level; and a presence for philanthropy across all five national missions.

We also advocate for designating a philanthropy champion in the Government to lead this work. Assigning explicit responsibility for philanthropy to a senior, influential figure in the Government will help to ensure that understanding of philanthropy is embedded and provide other parts of government with responsibility for philanthropy a point of contact to co-ordinate cross-government activity. This champion might most sensibly be the Secretary of State in the department responsible for philanthropy.

Priorities for the Budget

Wealth Advice

Financial advisers, accountants, and other providers of professional services are at the heart of the UK's financial services economy and play a significant role in supporting high net worth individuals. However, these individuals do not routinely engage in discussions of philanthropy and charitable giving with their clients – our research with advisers in 2023 found that only 5% are very confident in discussing philanthropy with their clients.

There has been positive progress on developing training for financial advisers to improve their understanding of philanthropy and social investment which must continue at pace. The sector is currently developing the content of the training.

The next step is to ensure that uptake is adequate. Making philanthropy training mandatory is one possible option. The Government could direct the FCA to use its powers to add philanthropy to CPD and the curricula of industry qualifications; and include philanthropy and social investment in all its work on sustainable finance, recognising the position of philanthropic capital on the spectrum of capital about which individuals may seek advice. The FCA has been broadly supportive of advisers talking to their clients about philanthropy but more needs to be done given the high significance of this issue.

Financial advisers must be equipped to discuss giving alongside wider tax and spending decisions. This should include impact investing and how to talk to clients about a wider range of use of assets.

If the financial advice sector was more informed and confident on the topic of philanthropy, it would mean they could signpost clients to expert, tailored advice on how they can give – be it via a foundation, a Donor Advised Fund, cash or shares - ensuring they can make the most of their donations and achieve their desired impact. Our research shows that this is something high net worth individuals want from their financial advisers but are not currently getting.

Once advisers routinely engage with clients on the topic of their giving, the Government must ensure that an appropriate range of products and solutions are available to deliver this giving.

Mandatory reporting of charitable giving

Promoting transparency around corporate giving could help address the decline in giving from companies. Our forthcoming research into giving among UK businesses shows that giving has not kept pace with profits. In 2014, the FTSE 100 recorded a combined pre-tax profit of £130 billion with donations of £2.1 billion. By 2023 profits had soared to £194 billion, a rise of 49%, but donations are 13% lower than they were a decade ago, at £1.82 billion. This is a real-term decline of 34%. If donations had risen at the same rate as profits have, the amount given by the FTSE 100 in 2023 would be an estimated £3.13 billion. The Government should reverse the 2013 amendment to the Companies Act which removed the requirement for companies to report their giving in their annual reports. This would enable greater transparency about giving practices, give companies a clear understanding of the giving behaviour of their market competitors, and set norms for what is reported and how.

This move is particularly needed in the context of the (positive) focus on responsible business practice which can mean that giving is reported alongside a range of other activities, including those to meet regulatory requirements, and may be conflated with these activities.

Several different standards exist, creating a lack of consistency on corporate reporting of charitable giving. Designating a standard to be adopted, such as B4SI, would be valuable in bringing consistency and providing clarity to companies on what should be reported.

Match Funding pots

The Government should embed a 'match first' approach to grant and spending programmes, where appropriate, meaning that once the Government is in the programme design phase for a new intervention or policy they should as a matter of course consider the feasibility of attracting philanthropic match funding. We know that there is appetite amongst philanthropists to become involved in match funding initiatives, particularly if there is clear direction from the Government in relation to a clear goal or mission it is trying to achieve.

For example, in 2020, the Government allocated £85m to the Community Match challenge, where philanthropists, foundations, and grant making organisations were invited to make onward grants with a pound for pound match of funds raised.

VAT relief on gifts from companies to charities for their own use

We welcomed the announcement on Tax Administration and Maintenance Day in April this year that HMRC would be consulting on extending VAT relief to the donations of low value goods to charities for onward distribution to those in need.

The VAT rules that apply when retailers donate products to charities are hampering companies from donating excess stock to charity at sale and contributing to unnecessary waste and environmental harm and making it harder for charities to support those in need. Donations of goods to charities by corporates for onward sale attract full VAT relief. However, when goods are donated directly to support people in need or for the use of charities themselves, the donor is required to pay VAT.

We hope that the Government will use the Budget to deliver these proposals. We would urge this policy to be extended in time to cover goods used by charities themselves in the course of providing their charitable services.

Increase Gift Aid Small Donations Scheme (GASDs) limits in line with inflation

The Gift Aid Small Donations Scheme (GASDs) provides a boost to fundraising for small charities making collections in cash or through small contactless payments by enabling them to claim the equivalent of Gift Aid in circumstances where it would not have been possible to collect Gift Aid Declarations for each individual donation.

There are a number of limits which relate to this scheme which have not been increased for many years. GASDs currently allows charities to claim up to £2,000 (at 20% income tax rate) on donations up to £8,000, comprised of small donations of £30 or less. These thresholds have remained unchanged since 2016, and we believe they should be increased in line with inflation.

Increasing the thresholds would allow smaller charities and community organisations to deliver their critical work.

Accelerate the Gift Aid Review

Gift Aid is an important and valuable part of the UK's charitable landscape which boost the value of giving and creates incentives for giving. But the processes for claiming Gift Aid were designed for a paper-based age and are creating barriers both for donors and for charities using the relief.

HMRC has been undertaking work to build the business case to digitise the Gift Aid process and make it easier to use for charities and donors, including those who have additional needs and those who are digitally disconnected. We welcome this work. We believe this work must develop at pace and with appropriate funding.

We would like to see this work include a step change in the way that Gift Aid operates to ensure that it is fit for today's world. Donors should have the ability to hold their Gift Aid status within their HMRC account, enabling them to make a universal Gift Aid declaration that applies to all their charitable giving rather than having to make a new declaration for each charitable cause they donate to.

A prospectus for philanthropic capital

Each department should offer a prospectus of investible opportunities, understanding there are multiple forms of philanthropy, and these opportunities will only be relevant to a select number of philanthropists. These would feed into a central institution for introducing philanthropists to opportunities. This approach should encourage use of innovative funding and financing models like recycled capital, social investment, backed by government guarantees to de-risk particular investments. This approach would not replace the need to work with fundraisers and to carefully tailor propositions to individual philanthropists and their interests.

Priorities for the Spending Review and longer term

Charitable action zones

As recommended by Centre for Cities, Charitable Action Zones should be delivered in places with a deficit of charitable activity. These schemes would see the Government match donations targeted at certain areas and invest in capacity to attract donations in these areas (using existing infrastructure where available), with a goal of multiplying the impact of funding secured in these places and strengthening their ability to fundraise and deliver charitable activities for the long term. Our experience suggests that the match element will be most effective at boosting the size of existing donations, while capacity building will help to encourage new donors.

The think tank NPC has similarly called for Social Growth Zones with national funding in deprived areas — coming from sources such as Levelling Up, the UK Shared Prosperity Fund and dormant assets funding — made accessible to charities to deliver programmes to support people's health, education, skills, employment, and wealth in the places of greatest deprivation.

To maximise the effectiveness of this policy, the Government should fund capacity building in areas with weaker levels of charitable activity, to encourage major donor philanthropy. This is particularly important in areas which may struggle to attract major donors even with a match offering, and for attracting new donors. Capacity building activity might include support with fundraising, working in partnership, or setting up teams responsible for attracting investment, supporting charities to build relationships with funders. The capacity building activity should learn from previous experiences, such as CAF's work with DCMS in 2019 to set up 6 place-based giving initiatives.

Local leaders are in the best position to tailor their approaches to preferences for local giving, the nature of local need and local ability to give. There are isolated examples of success here. For example, the Greater Manchester Mayor's Fund has demonstrated how local funds can work to direct funding to local charities under the broader cause umbrella of ending homelessness. The Government should support local leaders to drive forward place-based schemes. Local government can help to target local giving toward local need in more deprived areas, working with charities on the ground. In policy terms, this could involve broad local funds, diverting donations to local charities under the umbrella of a wider cause.

While we recognise that initially one-year departmental spending budgets will be set during this Budget, we would urge the Government to consider longer-term investment in order to deliver a more effective scheme. A three-year scheme delivered as part of the Spending Review which will complete in Spring would allow more time for donors to be lined up, for the scheme to established and for it to have impact.

Diaspora Giving Schemes

The Government should take steps to drive forward diaspora giving schemes.

Building on the success of initiatives such as Made in Stoke, diaspora giving from a community can be encouraged to donate back to their hometown. Made in Stoke is a community of people with links to Stoke-on-Trent, supported by partners including philanthropists, local universities, the councils and football clubs and businesses. It seeks to create connections between people and find ways for them to give back to the city that made them. It is critical that such initiatives have an institutional home, cross sector participation and engaged leadership.

To facilitate the delivery and administration of these schemes, sources of funding such as crowdfunding and philanthropic support should be considered.

Central government should encourage local government to set up diaspora schemes, whether through a funding pot, co-ordinated through MHCLG and DCMS, or convening mayors to discuss the topic. Through its commitment to local growth funds the Government can encourage local authorities to collaborate with the impact economy and philanthropy and follow their own 'match first' principle.

Charitable remainder trusts

Charitable remainder trusts (sometimes known as living legacies) are an established vehicle for charitable giving in the US. They allow donors to set aside assets for charitable purposes using a standard IRS approved structure. These assets generate income for the donor or family member over a period of time, after which the donated asset or the proceeds of sale and any investment return in excess of the income paid out passes irrevocably to the charity. This allows donors to give assets during their lifetime that they otherwise might not feel they could give - without the assurance of regular income from those assets. The Government should legislate to create a legal structure for charitable remainder trusts in the UK (ensuring an appropriate structure exists in all of the nations).

The Government could be concerned about the foregone revenues from tax relief, which may take a small amount of time to become available to charities to benefit from. One response to this would be to introduce a limit on the relief initially. This would give fundraisers a powerful message to take to potential donors: ‘act fast if you wish to donate, or you will miss your chance this financial year.’ Such a limit could act similarly to the limits on ISAs. There is a precedent for the Government offering tax relief to incentivise certain behaviour but imposing a limit on that relief.

Spending Review to include an assessment of the strengths and capacity of civil society

The resilience and capacity of civil society are about more than just money. But charities and the philanthropists who support them work across the delivery areas that will be crucial to progress against the priorities of the government. The Spending Review process should require departments to make an assessment of the current resilience and delivery capacity of civil society to support their work, including the role and potential of philanthropy (for example, through inviting in match funding) in addition to that allocated in government spending programmes. Adherence to the principle of additionality is critical here: philanthropic funding can augment, but not replace, government funding.

Charities Aid Foundation
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