

Charities Aid Foundation, Spending Review Submission February 2025

About CAF

The Charities Aid Foundation (CAF) exists to accelerate progress in society towards a fair and sustainable future for all. Over the last 100 years, we have led the way in developing innovative approaches to giving. Last year we distributed over £1.1 billion to good causes around the world and in every constituency in the UK. Our work gives us unrivalled insight into both charities and what motivates and encourages donors to give, both at a national and local level.

As a leading charity operating in the UK and internationally, CAF works at the centre of the giving world. We partner with corporate and individual donors to enable them to give more effectively, strategically and impactfully.

We help charities to strengthen their resilience and do more of their life-changing work, through our Impact Accelerator and our strategic advisory services from CAF Bank Limited and CAF Financial Solutions Limited.

Context

Charities are vital to our communities, providing essential services to people up and down the country from food banks and financial guidance, to care homes and disability support. In many cases, these charities are working towards goals that align with the Government's objectives.

However, charities are facing ongoing challenges.

CAF charity resilience research published in October 2024, found:

- The vast majority (86%) of charities reported increased demand for their services compared to the previous year.
- Over a quarter (28%) were uncertain that their organisation will be able to meet the rising demand.
- At the same time half (50%) of charity leaders surveyed cited increased competition for funding as one of the main challenges facing their organisation, with nearly a third (30%) having reduced their workforce, or planning to do so.

Furthermore, charitable donations have also not recovered to pre-pandemic levels. CAF's UK Giving Report 2024 found:

- Although donations from the public to charity increased to a record £13.9 billion in 2023, up from £12.7 billion in 2022, this increase in donations was driven by people giving larger amounts rather than more people giving to charity.
- There are fewer people regularly donating to charity compared to before the pandemic – nearly six in ten (58%) donated or sponsored in the past 12 months, compared to 65% in 2019 and 69% in 2016.
- The typical donation to charity has remained unchanged at £20 for seven years, despite inflation.

Charities also face increased costs in response to forthcoming changes to Employers' National Insurance Contributions.

We urge the Government to use this spending review to do what it can to support charities and to enable them to continue their life changing work, including by supporting their incomes through policies that support philanthropy, charitable giving, and the broader impact economy.

Priorities for the spending review

We are conscious that this spending review is taking place in a constrained fiscal environment, and we understand that the Government is keen to ensure that spending is aligned to the Government's missions.

With that in mind it is critical that the government maximises the effectiveness of its spending by aligning with other sources of capital including the impact economy and philanthropy where possible. Philanthropy and charitable giving offer an opportunity to direct additional funds towards charities delivering on the core priorities that are shared between government and philanthropists. Although philanthropy cannot replace state funding, it can come in alongside it and may have unique strengths.

We encourage the Chancellor to use this spending review to consider the needs of civil society and philanthropy and ensure that government spending supports the civil society sector to thrive.

This submission sets out the following recommendations:

1. Make use of match funding, including regional match funding
2. Invest in a place-based philanthropy strategy
3. Take action on wealth advice
4. Create the office for the impact economy and fund the social investment vehicle
5. Strengthen the relationship between Government and philanthropy through:
 - a. Making an assessment of civil society and philanthropy through the spending review process
 - b. Appointing a philanthropy champion
 - c. Ensuring representation of philanthropy and civil society on the mission boards
 - d. Strengthening engagement between the Treasury and the civil society and philanthropy sectors
6. Re-introduce mandatory reporting of corporate community investment
7. Invest in Gift Aid improvements
8. Fund the Charity Commission for England and Wales

Recommendation 1: Make use of match funding, including regional match funding

Match funding can be a powerful way to encourage philanthropy, and crowd in socially motivated capital to support a specific place or cause area that aligns with the Government's priorities.

Match funding schemes can increase donation size and incentivise philanthropists to focus giving towards areas or causes that are covered by the scheme. This can encourage fundraising that is responsive to the dynamics of need. The success of the CAF Resilience Fund, which combined funding from DCMS with funds from the long-term savings and insurance industry demonstrates how effectively philanthropic capital can multiply the power of Government investment.

Ideally, the Government should work with the philanthropy sector to identify priority areas for match funding, focusing on areas where there are areas of joint interest. It is important that this is a collaborative process rather than a top-down approach – philanthropists have their own interests and priorities so schemes will be more effective if there is common ground and if funders have a sense of “buy-in.”

Whilst that is the ideal approach, we also think that the Government should consider the possibility of match funding for all Government grant schemes. It will not work for every scheme, but there will be many where funders will be willing to contribute and amplify the scheme’s impact.

As well as thematic areas, match funding can also be applied in priority regions. As called for by Centre for Cities and Onward, Charitable Action Zones would help address the need for community development in areas with a deficit of charitable activity. Variations of this scheme have been proposed from a number of different sources.

Broadly, we recommend the Government should match donations targeted at certain areas and invest in these areas’ philanthropic infrastructure, with a goal of multiplying the impact of funding secured in these places, thus strengthening local fundraising, charitable activities, and community development for the long term.

To access and attract match-funding, including attracting new donors, local authorities and organisations may need support to build their capacity.

Capacity building activity might operate at an organisation level supporting charities with fundraising, working in partnership, attracting investment, or building relationships with funders. It may also include activities supporting their capacity to scale up the delivery of services if they receive additional funding. Additionally, capacity building might be facilitated through support for local civil society organisations who can provide a pool of resources to charities in a particular place or working on a particular cause.

Recommendation 2: invest in the place-based philanthropy strategy

We welcome the statement by the Secretary of State for Culture Media and Sport Lisa Nandy that she intends to develop a place-based philanthropy strategy. At the Charities Aid Foundation, we have long called for the development of a national strategy for philanthropy and charitable giving, bringing together thinking about philanthropy and encouraging cross government working. A place-based philanthropy strategy would be a very positive contribution to aligning thinking about philanthropy across a number of different parts of government.

Such a strategy could include regional match funding, as discussed above, and bring together work that is being developed across government.

Recommendation 3: Activate Wealth advice

Financial advisers should be equipped to discuss philanthropy with clients. Yet our [research with advisers](#) in 2023 found that only 5% are very confident in discussing philanthropy with their clients. Efforts are currently underway to develop training for advisers and the next critical step will be ensuring sufficient uptake. One approach to achieve this is to mandate philanthropy training. The Government could instruct the Financial Conduct Authority (FCA) to use its powers to incorporate philanthropy into continuing professional development (CPD) requirements and the curricula of industry qualifications. Additionally, philanthropy should be embedded within

the FCA's broader work on sustainable finance, acknowledging its role as part of the capital spectrum that clients may seek advice on.

Recommendation 4: Support the creation of the Office for the Impact Economy and work with the sector on the design of the social investment vehicle

The impact economy refers to philanthropists (from high-net-worth donors to mass market givers), impact investors and businesses who use their money to deliver long-term impact and social good alongside financial goals. The impact economy has significant potential to align capital behind key priorities for the country, including the Government's five missions.

We welcomed the announcement in the Autumn budget 2024 that the Government will be developing a social investment vehicle and the steps taken so far to collaborate closely with the sector on the design of the scheme, to ensure that it is as impactful as possible.

Developing an Office for the Impact Economy would also be a helpful tool for bringing together government thinking on this important area. Many of the initiatives outlined in this submission would sit within this wider impact economy brief, including encouraging the use of match funding and regional match funding, and work on wealth advice.

Recommendation 5: Strengthen the relationship between government and philanthropy

The Civil Society Covenant which is being developed between the charity sector and the Government, reflects a desire to reset the relationship between the Government and the voluntary sector. Government engagement with the sector in line with these principles is very welcome. In this section we recommend a number of lower cost practical measures that would deliver on the principles in the covenant and help to ensure that philanthropy is promoted and supported and that opportunities to work with the sector or to gain valuable input are not missed.

A: An assessment of philanthropy and civil society throughout this spending review

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 would be critical here, meaning that philanthropy and civil society can build on what the state is doing rather than stepping in to replace the state.

B: Philanthropy champion

Appointing a dedicated philanthropy champion in government would help drive a national conversation on giving and connect charities, businesses, funders, and potential philanthropists to boost giving efforts. Assigning this responsibility to a senior government figure would ensure that an understanding of philanthropy is embedded and provide a point of contact for coordinating cross-government activities. This would signal the Government's commitment to leveraging philanthropy to support initiatives beyond its reach, such as long-term investments in innovative, high-risk ideas.

C: Representation on the Mission Boards/Advisory Commissions and across government

Philanthropy and wider civil society have a crucial role to play in contributing to the delivery of the government's five missions. The Mission Boards and/or the Advisory Commissions set up to

support them should include formal representation from civil society and philanthropy, in line with the principles of the civil society covenant. These voices should also be heard in departmental initiatives working towards these goals.

Philanthropists who share the Government's priorities should be enabled to share their capital, expertise and convening power with the Government. Working in partnership will be essential, in line with the principles of the draft Civil Society Covenant.

D: HMT engagement

To ensure that the relationship between the Treasury and the voluntary and community sector is in line with the principles set out in the proposed Civil Society Covenant (recognition, partnership, participation and transparency), the Treasury should put in place processes for formal engagement with the voluntary and community sector prior to every major fiscal event. Alongside this, as the Civil Society Group has called for, we recommend the Treasury hosts quarterly roundtables with sector representatives and Treasury ministers. These meetings would provide a forum to discuss the impact of financial announcements on the sector's ability to support the delivery of the Government's missions and to foster greater collaboration between civil society and the Treasury in the policy making process.

Recommendation 6: Mandatory reporting of corporate community investment

Our research estimates that £1.82 billion was invested back into communities through donations to charitable causes by the FTSE 100 in 2024, a real terms decline of 8.3% on the previous year. However, a lack of transparency around this community investment makes robust calculations difficult.

The Government should reverse the 2013 amendment to the Companies Act, which eliminated the requirement for companies to report charitable donations in their annual reports.

Restoring this requirement would improve transparency, enable companies to benchmark their community investment practices against peers, and establish norms of reporting and investment. Designating a standard for this reporting, such as B4SI, would be valuable in bringing consistency.

Recommendation 7: Invest in Gift Aid Improvements

Gift Aid is an invaluable part of the UK charity landscape, providing an incentive for giving and supporting charities' resilience. Unlocking unclaimed Gift Aid, estimated at over £560m each year, would boost the value of giving to charities. 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.

The Government should invest in simplifying and streamlining Gift Aid processes, helping to unlock the Gift Aid that goes unclaimed each year and making the system easier to use for charities and donors.

The 4.5% increase in total Departmental Expenditure Limits for HMRC announced at the Autumn Spending Review was welcome in helping to close the tax gap, modernise and reform HMRC, improving customer service.

As the Civil Society Group have called for, this spending review should ringfence a proportion of this additional money for the purposes of:

- Investing in improvements to the Gift Aid system.
- Incrementally improving HMRC's systems and processes which support the voluntary and community sector.
- Providing additional funding for the HMRC charity tax helpline to provide frontline support for charities looking for tax advice.
- Helping to make HMRC guidance for charities more user friendly and interactive, helping charities understand their obligations, and helping to ensure they produce accurate and timely tax returns.

Recommendation 8: Fund the Charity Commission for England and Wales

The Charity Commission for England and Wales received a modest increase in funding at the Autumn budget. This was a welcome development that reflected some of the inflationary pressures that the regulator has experienced.

As the Civil Society Group has recommended, the government should use the multi-year spending review to ensure the Charity Commission has long-term funding to put it on a sustainable footing in both supporting and regulating the sector.

It is important that the Charity Commission has sufficient resources to improve its effectiveness and efficiency and can take advantage of the latest technology and data techniques to support charity transparency.

Ensuring that the regulator can respond quickly to requests from charities enables them to deliver their impact by making timely decisions. This applies to activities such as selling land or changing charitable purposes.

The Commission also needs to be sufficiently resourced to maintain the online register of charities and keep it up to date. In the absence of market data, this regulatory data has become the primary source of data about charities for the public, philanthropists, and policymakers.

Finally, the Commission has a significant role in working with the sector to promote community cohesion and ensure that the public's perception of charities reflects the sector's work. Robust investigations into the small numbers of bad actors give the public and donors confidence to fund charities. Public confidence is improved by the sector being seen as well run and well regulated.

Charities Aid Foundation, February 2025