Unleashing the power of civil society in Scotland April 2023



Commission on Civil Society

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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 groundbreaking research exploring 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 16 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.

The Commission's final UK report was published in January 2023. This is a companion to that report, drawing on both the evidence and ideas generated across the UK, as well as the insights of stakeholders in Scotland about the specific challenges facing civil society and the solutions best suited to unleash its full potential in the country.

Foreword

Tackling the great societal challenges we all face requires the public, private and social sectors to collaborate and work in partnership. No one sector can solve these problems alone, but all three working together can achieve their full potential and truly build inclusive growth.

Raghuram Rajan, the former Chief Economist of the International Monetary Fund (IMF), identified the need for balance across the sectors in his 2019 book. The Third Pil

balance across the sectors in his 2019 book, *The Third Pillar*. He noted that an imbalance had been allowed to take hold in favour of markets and the state, at the expense of the community pillar.

Andy Haldane, co-founder of Pro Bono Economics, progressed this theory by demonstrating the vastly under-recorded contribution of the UK's social sector – and its potential to make an even greater impact through enlightened partnership with the public and private sectors to the mutual benefit of all.

Unlocking the full potential of the social sector has been the guiding principle at the heart of the Law Family Commission on Civil Society, a two-year programme of research drawing expertise from across the UK and from all sectors.

For me, as a great believer in the principle of 'demonstrate by doing', the Covid pandemic proved the ultimate example of the social sector stepping in where the state and markets would not or could not go. Civil society maintained and strengthened those precious connections in our communities, which were under strain like never before, and which can neither be bought nor legislated into being.

If there was any doubt about the criticality of a strong, impactful and sustainable civil society before 2020, the sector's vital contribution during the pandemic has helped build a consensus from which we must move forward together to boost the growth, productivity, organisational effectiveness and societal impact of the social sector here in Scotland, and across the UK.

Hundreds of organisations and individual experts contributed to the Commission through focus groups, roundtables, written submissions and more. Scotland is well-known for the scale and activity of its social sector, and this was reflected in the high level of engagement from Scottish civil society. All of us on the Commission are grateful for the many comments and ideas submitted, and the voices of Scotland's social sector are reflected throughout this report.

The social sector is a key partner alongside 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. This report sets out a pathway that can help us maximise the impact of civil society for the benefit of everyone in Scotland.

Theresa Shearer FRSE

Commissioner, Law Family Commission on Civil Society CEO, ENABLE Scotland and Vice President, Inclusion Europe



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*

In addition, many other colleagues in Scotland have generously shared their ideas, insights and evidence to inform this report. We would particularly like to thank Kaja Czuchnicka, Nick Addington, Beccy Mac, Susan Murray, Jim Dorman, Neil Hay, Becky Duff, Louise Davies, Kirsten Hogg, Richard Baker, Jim McCormick, Kirsty McIntosh, Calum Irving and Leah Black.

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 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.

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
- Katie Dash
- Rhodri Davies
- Leah Davis
- Cath Dovey
- Daniel Ferrell-Schweppenstedde
- Andy Frain
- Julia Grant
- Chloe Hardy
- Richard Harries

- Ed Humpherson
- Ed Mayo
- Geoff Nuttall
- Helen Rafferty
- Rachel Rank
- 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 Scotland, civil society can be found. In every community, 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 changes that everyone agrees are 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 Scotland and the UK. From the Christie Commission on the Future Delivery of Public Services in 2011, to the Social Renewal Advisory Board report in 2021, the central importance of a thriving third sector working in partnership with Scotland's public and private sectors has been recognised at the highest level in Scotland. As was recognised in the latter, the Covid pandemic shone a spotlight on just how critical civil society is, with the growth of mutual aid groups, the support the sector provided to the most vulnerable citizens, 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 civil society does not yet have all the tools and the environment it needs to fulfil its full potential in this challenging context. Both the Christie Commission and the Social Renewal Advisory Board identified many of the barriers hampering civil society and undermining effective collaboration across sectors and made recommendations to tackle them. Building on this, 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 Scotland. 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 independent and public sector funders 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 acceleration in the partnership between civil society and business, and advances in the relationship between civil society and government.

With this investment, acceleration and improvement, civil society's potential could be unleashed. If funders and governments 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)¹, 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' to improve the way the sector is valued in the UK's national accounts – 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 Scottish taxpayers.

¹ Either as a Scottish organisation or through a UK organisation designed to serve Scotland effectively and share evidence across different parts of the UK.

Overhauling the funding landscape that civil society operates in is essential to both these aims and more. The power to do this lies with government, independent funders and regulators. A meaningful majority of funders need to make more long-term, flexible financing available more simply to the sector. The Scottish and UK governments should also begin to use their powers of convening, regulation and guidance, measurement, leadership, taxation, and the ability to leverage funding to increase the levels of charitable giving, starting with the appointment of philanthropy champions to spearhead the work across the Scottish government and the areas of Scotland that most require it. The Financial Conduct Authority

(FCA) should also 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 Scotland 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, improvements in the relationships between government and civil society are crucial and should be underpinned by a drive to increase public sector volunteering and secondments between sectors, as well as efforts to ensure that formal structures, such as advisory groups and boards, fully include and value the contribution of civil society representatives.

Together, the changes proposed by this Commission strive to achieve a Scotland 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 the public sector, private sector and civil society all 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.

How to unleash civil society's potential in Scotland

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 variable 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.

To meet these challenges, the Commission recommends:

- A radical shift in approach from funders, 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.
- Governments 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. This could be a Scottish organisation, or a UK body carefully designed to ensure it serves Scotland effectively.
- The UK and Scottish governments should provide social sector organisations with access to productivity schemes currently restricted to businesses and support and encourage their participation in them.
- The Scottish government should build on its earlier review of local infrastructure and consider with the sector how far the current network meets its needs and, in particular, whether development is required in order for it to fulfil the role of 'diffusion architecture' and boost productivity.
- The Scottish government, social sector organisations and business groups should prioritise promoting skilled volunteering within the Volunteering Action Plan, enabling charities to access specialised skills which can boost their productivity, for example: in data, digital technology, HR, strategy and management.

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%.

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 UK government's commitment to create a civil society satellite account which will include and benefit social sector organisations in Scotland.

To further improve the data available and how it is used:

- 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) Code of Practice for Statistics where relevant.
- Funders should encourage and support charities to collect, use and share high quality data. More Scottish funders, alongside all parts of the Scottish government, should share their own data and participate in initiatives such as 360Giving.
- 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. This should be prioritised within Scotland's Volunteering Action Plan.
- UK and Scottish governments should play a coordination and leadership role on social sector data, including by delivering the promised civil society satellite account. They should create and encourage more participation in data labs, ensure these are available and effective for organisations working in Scotland, and work 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 do, and all that the country needs it to do. The Commission has found that improvements in the nature and distribution of funding would strengthen civil society immensely. An additional £5 billion per year could be raised from public donations if the UK matched other leading countries. If this benefited charities in Scotland in proportion to its share of UK public donations, around an additional £300 million would be added to charity income in Scotland. And far greater impact could be unlocked if more funders tackled the short-termism and inefficiencies which undermine their goals and geographical and social imbalances in the distribution of funding,

The Commission proposes that:

- The Scottish government, local authorities and other public sector funders implement the commitment to fair funding by offering multi-year funding, covering the full cost of activities (whether through contracts or grants), taking account of inflation and supporting civil society organisations to pay staff at least the Real Living Wage.
- Public sector and independent grant-makers shift their funding decisively towards investing in core costs and building charities' capabilities, while streamlining their application and management processes. They should support charities to collaborate and engage strategically with policymakers and other stakeholders.

- Independent funders and charity infrastructure bodies in Scotland should advocate for the adoption of more effective funding practices across Scotland (as some are already doing). The Scottish Charity Regulator (OSCR) should explore with the sector whether there are any steps it could take to support and spread better funding practices.
- The Scottish government should appoint a Philanthropy Champion (as should the UK government) and local philanthropy champions should be appointed to draw funding into deprived areas, including through proven approaches such as match-funding schemes.
- The FCA should 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) commitments and the Consumer Duty.

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.

The Commission believes that:

- Business and civil society umbrella organisations in Scotland 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. Initiatives focused on specific business sectors and on local areas are seen as having the most potential to advance this.
- Charities, businesses, investors and advisors should work together to improve the measurement of businesses' social impacts and the value of civil society partnerships and drive the use of initiatives within which businesses voluntarily disclose information and data about their actions to improve their social impact, to encourage more businesses to engage with civil society.
- The Scottish government's Economic Development Directorate should work with the UK government's Department for Business and Trade (DBT) to reinstate the requirement for businesses to report their contributions to charities and civil society.
- Ahead of this, they 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

Relationships between policymakers and charities matter immensely, affecting the nation's progress and day-to-day life for millions of people. The Commission found that there is a strong bedrock of engagement and respect between charities and policymakers, with more

widespread and positive connections within Scotland than are experienced in some other parts of the UK. However, there are still weaknesses to overcome.

Despite positive views, policymakers do not always have a strong understanding of the purpose, funding and structure of the social sector. Some engagement is seen as tokenistic, with policymakers failing to recognise the value of civil society's contributions or to implement processes which enable genuine collaboration. Effective engagement requires both sides to have the personnel and time to support it, but many charities struggle to find funding which supports this and cuts to public sector budgets can similarly undermine policymakers' ability to do so. The Scottish government's approach to engagement can be unsystematic, meaning charities have to repeatedly 'make the case' for their involvement and are absent from some advisory structures and processes which would benefit from their insight.

The Commission recommends that:

- Policymakers and the social sector in Scotland should work together to create more opportunities and momentum for volunteering by policymakers and for both policymakers and social sector workers to undertake secondments in other sectors.
- The Scottish government should review the membership of formal advisory structures and ensure appropriate civil society representation, alongside ensuring that initiatives such as City and Regional Growth Deals routinely build in the involvement of the social sector, as they do the private sector. The government should also recommit to putting in place reasonable timelines, accessibility and resources for consultations to be genuinely useful to both sides.
- Funders should support charities' capacity to engage effectively with local and national policymakers, recognising the value of this in advancing their charitable goals and incorporating resources for it into their funding.

1. Introduction

"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

Civil society can be found on every street, in every village, town and city in Scotland, and – increasingly – in the online spaces in which people live their lives. From a park clean up in Edinburgh that started as a residents' Facebook group to an East Lothian 'welcoming committee' for refugees and a group of young people in Inverness supporting teenagers diagnosed with diabetes.² From campaigning for smoke free public spaces to protecting marine life and securing Scottish government commitments to reducing greenhouse gas emissions and compensation for Scottish victims of asbestos-related diseases³ - civil society plays an integral part in achieving practically every national goal and priority.

In 2011, the landmark Christie Commission on the Future Delivery of Public Services laid out a powerful vision of the public sector working in true partnership with local communities and civil society organisations. It established principles which have been hugely influential across the Scottish social sector and within the Scottish government, local government and the public sector more broadly. Many of the issues highlighted by the Christie Commission are still very salient today, and many of its proposed solutions are still required. For example, the need for multi-year funding to provide "stability and underpin quality and innovation". ⁴

In 2021, the Social Renewal Advisory Board's report⁵ took the earlier Commission as its "North Star", finding that "its central tenets of empowering, of shared systems that focus on prevention, and of equitable partnerships still hold true but they are yet to be delivered in full. It is more important than ever that we revisit Christie's principles and hold to them as we look to renew."

The Law Family Commission on Civil Society has similarly found a great deal commonality between its findings and those contained in these earlier reports. The solutions proposed by the Law Family Commission support and echo several of the calls to action set out by the Social Renewal Advisory Board. In particular, the Board's focus on giving more control to local people, valuing volunteering and creating "a shift towards long-term systems of risk and reward to bring about a secure and sustainable third sector." Some of its specific recommendations have also emerged strongly within the Law Family Commission's work, including the call for muti-year funding which supports collaboration and for cross-sector work to be embedded in career development and ways of working across different sectors.

The Law Family Commission on Civil Society has been concerned with both broader and narrower concepts of civil society. A broad view of civil society is that it is an expression of the connections that exist between individuals and institutions in every part of society. It can also be more narrowly conceptualised as the set of organisations that provide the

² T Yaqoob et al, Social action during the coronavirus pandemic: learning from the crisis to help build forward better (part of the Social Action Inquiry Scotland), Together we help, 2021

³ Charities, Scotland and Holyrood: twenty years delivering change, SCVO, 2019

⁴ Commission on the Future Delivery of Public Services, Scottish Government, 2011

 $^{^{\}rm 5}$ If not now, when? The Social Renewal Advisory Board Report, Scottish Government 2021

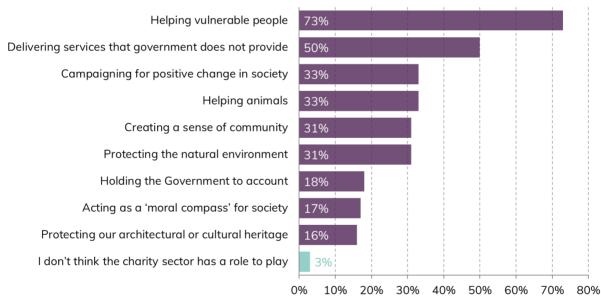
infrastructure for those connections, from charities to trade unions and from housing associations to social enterprises. The Commission has considered the broad view in exploring the integral role that civil society plays in the success of the economy, the functioning of democracy, the strength of communities and the nation's wellbeing. It has used the narrower view to examine 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.

Scotland's civil society, like that elsewhere in the UK, is highly diverse, including small volunteer-run community groups and neighbourhood WhatsApp groups to major providers of public services, especially in housing and social care. Overall, there are more than 46,000 social sector organisations in Scotland, including 25,000 registered charities.⁶ The sector employs 135,000 staff, accounting for 5% of Scotland's workers,⁷ and relies on more than a million volunteers each year. Together, the sector has an annual turnover of over £6 billion, equivalent to more than three-quarters of Scotland's vital tourism sector (at £7.8 billion).⁸

The Scottish public place great value on social sector organisations and have high levels of trust in them. They express this in survey scores, with a public trust score of 6.8 out of 10 in 2022 (a slight drop from 7.02 in 2020, but still higher than scores in 2018 and 2016).⁹ And they demonstrate it by donating both time and money to charities, with nearly nine in ten (86%) having done so in 2020.¹⁰

The public recognise and value the range of roles played by the social sector, from service provision to driving social change and building community connections.

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)

⁶ State of the Sector 2022, SCVO, 2022

 $^{^{\}rm 7}$ State of the Sector 2022, SCVO, 2022

⁸ Introducing Scotland's Voluntary Sector, A guide for MSPs, SCVO, 2022

⁹ J Allen & A Belcher, Scottish Charity and Public Surveys 2020 report, The Scottish Charity Regulator (OSCR), 2022

¹⁰ J Allen & A Belcher, Scottish Charity and Public Surveys 2020 report, The Scottish Charity Regulator (OSCR), 2022

- 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

"I think they're a huge resource to the local sector, to local councils. A lot of times councils wouldn't be able to run without working with them hand-inhand." – Member of the public, online focus group, Scotland¹¹

"...[They are effective at] addressing vulnerabilities within the community that government services, like the NHS etc., often will fall short of. Either because it's not their mandate... or the vulnerability is just not large enough... affecting people, but not in large numbers." - Member of the public, online focus group, Scotland¹²

While most people intuitively grasp the different functions of the public and private sectors, the distinctive nature and role of civil society is often less well understood among both experts and the public, despite its integral role in so many people's lives. 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 exists 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 does not generally have as many options to borrow or otherwise raise additional finance at these times, compared to the public sector. 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.

¹¹ J Allen & A Belcher, Scottish Charity and Public Surveys 2020 report, The Scottish Charity Regulator (OSCR), 2022

¹² J Allen & A Belcher, Scottish Charity and Public Surveys 2020 report, The Scottish Charity Regulator (OSCR), 2022

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, for and from 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 overcome these barriers. Sections 2 to 6 address each of the five barriers identified above, setting out the nature of the challenge, its impact and solutions to overcome it, followed by the conclusion.

2. 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 1. Productivity: Key findings and recommendations

Findings

- Boosting productivity has rightly been a high priority for both UK and Scottish 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.
- The UK and Scottish governments should provide social sector organisations with access to and adaptations of productivity schemes currently restricted to businesses and support and encourage their participation in them.
- The Scottish government should build on its earlier review of local infrastructure and consider with the sector how far the current network of third sector interfaces meets its needs and in particular whether development is required in order for it to fulfil the role of 'diffusion architecture' and boost productivity.
- The Scottish government, social sector organisations and business groups should prioritise promoting skilled volunteering within the Volunteering Action Plan, enabling charities to access specialised skills which can boost their productivity, for example: in data, digital technology, HR, strategy and management.

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

In Scotland, as in the rest of the UK, weak productivity is a serious cause of concern and a policy priority. The Scottish government's National Strategy for Economic Transformation¹³ highlights it as one of the main long-standing challenges holding back economic success and sets out the ambition to "take action to shift the dial" in the coming decade. The strategy usefully recognises the importance of the public, private and third sectors working together to achieve this and the value of increasing "entrepreneurial thinking" in all sectors.

However, civil society has continued to be overlooked in decision-making structures and policies to support such progress. For example, the National Strategy for Economic Transformation Delivery Board¹⁴ established in 2022 consists of government and private sector representatives and its role is to *"hold the public, private and third sector delivery partners of National Strategy of Economic Transformation (NSET) to account"*. However, it includes only one civil society representative on the 'oversight group', and has little apparent representation of the sector on delivery groups (although there is little published information with which to verify this). Civil society organisations are excluded from UK productivity programmes, such as the British Business Bank, Be the Business, Help to Grow: Management and Help to Grow: Digital. While Scottish bodies such as the Scottish National Investment Bank and Productivity Club Scotland (delivered by the Scottish Council for Development and Industry with the Scottish government) do not exclude civil society, there is a strong private sector focus.

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. The challenges facing charities mean it is more important than ever to make the best possible use of every available resource, with many facing rising demand, rising costs and falling real-terms incomes.

"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

Small organisations often face particular challenges in tackling 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. 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.

¹³ Scotland's National Strategy for Economic Transformation, Scottish Government, March 2022

¹⁴ National Council for Economic Delivery Board, Overview, Scottish Government, 2021

"We try to think like this but then we get pulled under by just doing the doing. But to progress, we need to lift out of the weeds, have the time and resource to free up to do this." – Scottish charity

"It's the time pressures – people are scared to take their eye away from the day-to-day work." – Scottish charity

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.¹⁵ 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,¹⁶ moving to cloud computing¹⁷ or high-speed broadband.¹⁸ 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.¹⁹ And though funding to support this kind of transformational imagination is particularly scarce, some funders have started to lead the way.

Charities are generally highly innovative and creative, as was demonstrated especially strongly as they adapted to operating during the restrictions brought in during the Covid pandemic. There has also been progress on digital take-up in the sector, with nearly half (47%) of Scottish charities having improved staff and volunteer use of digital technology during the pandemic.²⁰

However, there is some distance to go, and charities report being held back by skills gaps, leadership issues and under-investment. Across the UK as a whole, 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'²¹, despite years of work to improve digital capabilities by organisations such as the Scottish Council for Voluntary Organisations (SCVO). 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'.²² Overall, in 2019, just over half of charities (56%) had the full suite of essential digital skills,²³ more than a guarter (27%) were rated as having low digital

¹⁸ <u>M Molnar.</u> Seizing the productive potential of digital change in Estonia, OECD, July 2021

²¹ Zoe Amar, <u>Charity Digital Skills Report</u>, 2022

¹⁵ National Institute of Economic and Social Research, <u>From ideas to growth Understanding the drivers of innovation and</u> productivity across firms, regions and industries in the UK, Department of Business and Trade, October 2021

¹⁶ G Awano, Information and communication technology intensity and productivity, ONS, October 2018

¹⁷ Gal P et al, <u>Digitalisation and productivity: In search of the holy grail – Firm-level empirical evidence from EU countries</u>, OECD, February 2019

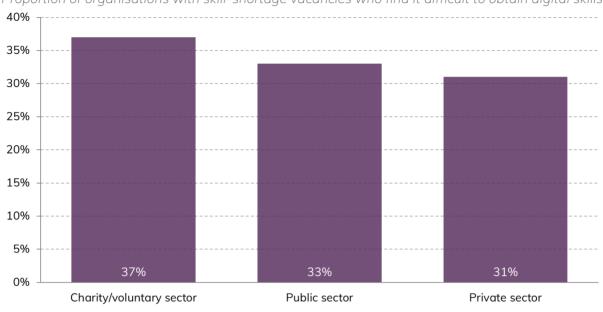
¹⁹ G Mulgan, <u>Social Innovation: How societies find the power to change</u>, Bristol University Press, 2019

²⁰ Covid-19 impact on charities (Wave Two), Scottish Charity Regulator, November 2020

²² Zoe Amar, <u>Charity Digital Skills Report</u>, 2022

²³ 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

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.²⁴





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

Notes: PBE analysis of Employer Skills Survey (UK-wide) 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 3: 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

²⁴ J Larkham, <u>Productivity of purpose</u>, 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. In 2019, UK-wide 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.²⁵

This is a major issue, because well-managed organisations are more productive.²⁶ 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, which undermines productivity. Research carried out in February 2022 by the People's Health Trust, with partners including Inspiring Scotland, found that more than eight in ten social sector leaders were concerned about staff burnout in the coming months.²⁷

Meanwhile, a lack of diversity may also be holding back performance,²⁸ (with evidence across various sectors suggesting that diversity improves decision-making, innovation and other aspects of organisational performance²⁹) 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.³⁰

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 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.

Figure 4: 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

²⁵ UK <u>Charity Digital Index 2019</u>, Lloyds Bank, December 2019

²⁶ N Bloom et al., <u>Does Management Matter? Evidence from India, Quarterly Journal of Economics</u>, February 2013

²⁷ J Hume, The voluntary sector workforce faces a growing mental health crisis. Funders have a role in tackling this. Funders Collaborative Hub, July 2022

²⁸ J Larkham, <u>Productivity of purpose</u>, Law Family Commission on Civil Society, January 2023

²⁹ Diversity wins: How inclusion matters, McKinsey & Company, 2020

³⁰ Unfortunately, sample sizes are too small to allow disaggregation of these statistics at the Scottish level.

³¹ J Larkham, <u>Inequality in civil society: the data</u>, Pro Bono Economics, 2022



and DCMS Sectors Economic Estimates: Employment, January 2021 to December 2021 (UK-wide)

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.³² And this gap may well be widening further, with slower wage growth in the charity sector in 2022 compared to the private sector.³³ The social sector and its funders have contributed enormously to the promotion of Fair Work and the Real Living Wage in Scotland, and to the commitments made by the Scottish government to champion them. However, it is important to recognise that meeting these standards themselves is important to improve the social sector's own impact and the wellbeing of its staff.

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

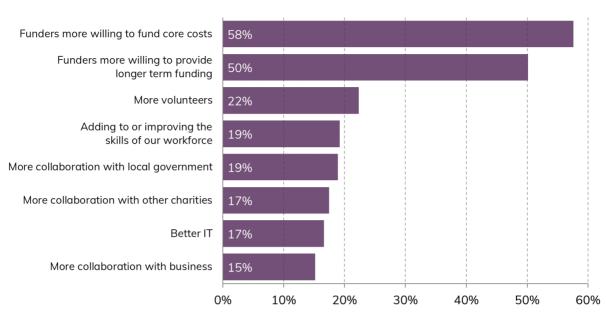
Three factors were identified both by UK-wide research and Scottish stakeholders as the main barriers to charities making improvements to their effectiveness, productivity and impact.

First, finance. 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.

Figure 5: 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?

³² J O'Halloran, <u>The price of purpose? Pay gaps in the charity sector</u>, Law Family Commission on Civil Society, August 2022

³³ M Williams, <u>Shared stress: uncertainty, pay and recruitment strains across the charity and private sectors</u>, Pro Bono Economics, 2022



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

Too many funders continue to provide funding which is short-term and does not cover the full costs of the activities they are intended to support, let alone enabling charities to invest in the people, training or tools which would let them develop their organisation or increase their impact. Those funders who are attempting to change this sometimes find that their efforts are undermined by the actions of others not yet addressing these issues.

"Some funders are like cuckoos in the nest, they rely on other funders to fund this kind of thing." – Scottish funder

"Using a tool like Breathe HR is much more efficient, it isn't my time in the evening doing staff holidays. But it increases the cost base, so I need to justify it in funding bids." – Scottish charity

Others also point out that charities can find it difficult to decide to use funding to develop themselves, even when it is allowed, as their urge is to deliver more services, because they see that the need for them is so great. It is important for charities to be encouraged to recognise the importance of organisational health and development to achieve their maximum impact.

Box 2. 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.

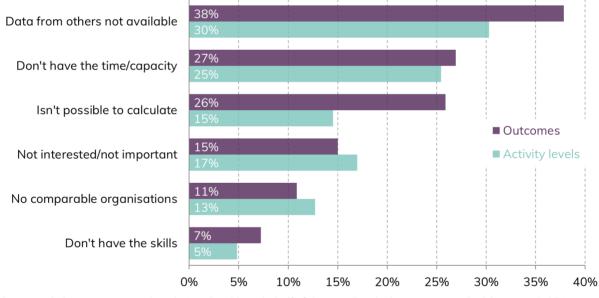
Its application processes are designed to be low-resource for applicants, and to add value even for those who are ultimately unsuccessful in their funding bids. The application process requires three pages in which applicants set out what they would like funding for and why it would transform their organisation's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

Second, data and evidence. UK research found that few charities benchmark themselves against their peers³⁴, with a lack of data the leading reason.

Figure 6: 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

This was reiterated by Scottish charities, who agreed it would be very useful to be able to compare their practices and costs and to learn from the experience of other organisations. They also commented that charities created a great deal of data but it was generally kept inhouse or shared only with funders. They argued that such data should be pooled and shared to boost productivity and impact across the sector.

³⁴ J Larkham, Productivity of purpose: bringing charities into the UK's productivity drive, Law Family Commission on Civil Society, January 2023

Finally, infrastructure was also seen as a barrier to advancing in this area. Research into productivity suggests that the key is 'diffusion architecture' to spread knowledge and ideas – such as exists in the private sector, including through initiatives such as Be the Business and the Scotland Productivity Club (the latter being open to the social sector but without much tailored marketing or support to encourage and enable these organisations to take it up).

Research in England has highlighted the fragmented and uneven nature of social sector infrastructure there and the funding cuts that many areas experienced in recent years.³⁵ Scotland retains a more consistent network, with a third sector interface (or TSI) in every local authority area. This model was developed in 2010 and reviewed by the Scottish government in 2017. More recently, a 2021 review, funded by the Scottish government and carried out by TSIs and Evaluation Support Scotland (ESS), found variations in the functioning and impact of TSIs across the country and highlighted the challenge posed by *"the ongoing disconnect between TSI resource levels and the complexity of the role that was identified in the 2017 review"*.³⁶

These findings were echoed by Scottish charities and funders consulted as part of the Commission's work. They too argued that the support available across different areas remains variable and it does not appear that the current provision always fulfils the role of this type of 'diffusion architecture'.

"So there is a TSI in every local authority in Scotland. And they do support charities, but that support will be different depending on the local area. All of them offer support in terms of governance, funding, fundraising, and quite a few around business planning. But it just depends, sometimes." – Scottish charity

"Good suggestion to have a local level as well. Charities coming together to talk about productivity, what they can do to support each other as well, in terms of carving out space for this time to assess impact and to increase productivity. So, you need that support, and government can supply that support. If it can for the small businesses, why can't it do it on national and regional levels as well, for charities too?" – Scottish charity

These challenges are compounded by the exclusion of the social sector from productivity schemes aimed at businesses. Charities in Scotland strongly supported opening these up to their sector, pointing out that they needed many of the same skills and tools to run their organisation as businesses, and that access to such schemes could also help to nurture cross-pollination with the private sector. The Leadership Exchange run by ACOSVO was cited as a good example of the benefits of leadership programmes and of connecting people in different sectors to support and coach one another. It was clear too that opening up productivity schemes to the social sector would only be effective if funders also supported charities to have the time to participate in such schemes, and that tailored marketing and

³⁵ J Larkham, Productivity of purpose: bringing charities into the UK's productivity drive, Law Family Commission on Civil Society, January 2023

³⁶ TSI Covid-19 Learning Project A focus on the roles played by Third Sector Interfaces during Covid-19, TSI Scotland Network, May 2021

support would be needed to ensure charities were aware of the opportunity and understood the benefits.

Box 3. 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.

How to improve productivity in the sector

There are five important steps to be taken to improve productivity across the social sector in Scotland.

First, funders – both independent funders and the UK, Scottish and local governments – 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.

Second, the Commission has recommended the creation of a new Civil Society Evidence Organisation (CSEVO) as a joint venture between government and the sector.³⁷ 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.

The CSEVO could be established on a UK-wide basis or with equivalents in the devolved nations. There would be benefits to an organisation covering the whole of the UK in enabling it to pool resources – funding, evidence, data and ideas - which could be very helpful to

³⁷ Unleashing the power of civil society, Law Family Commission on Civil Society, 2023

Scottish charities and the communities they serve. We urge the Scottish government, Scottish local authorities, funders and charities themselves to come together to ensure that either a UK organisation is set up to serve every part of the country or a Scottish CSEVO is established. This new organisation should draw on the experience of organisations such as Evaluation Support Scotland (which works with charities and funders to help them measure and report on impact) and ensure its work complements and is connected to existing capacity rather than duplicating it.

The Scottish government, the Office for National Statistics (ONS) and researchers should also work together to extract data from charities participating in UK and Scottish 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 Scottish Charity Regulator (OSCR) 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 Scottish government productivity schemes - such as Help to Grow and the Scotland Productivity Club – to the social sector, along with targeted marketing and support to encourage social sector organisations to take them up.

Fourth, the Scottish government should build on the earlier review of local infrastructure and consider with the sector how far the current network meets its needs and in particular whether development is required in order for it to fulfil the role of 'diffusion architecture' and boost productivity.

Finally, the Commission welcomes the recognition of the importance of employer-supported volunteering in Scotland's Volunteering Action Plan, published in June 2022.³⁸ The Commission urges the Scottish government, social sector organisations and business groups to prioritise promoting skilled volunteering, enabling charities to access specialised skills which can boost their productivity, for example: in data, digital technology, HR, strategy and management.

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.

Box 4. 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 Boghall Drop in Centre in West Lothian, which wanted to develop a new website to help its community know about their services

³⁸ <u>Volunteering Action Plan</u>, Scottish Government June 2022

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.

3. 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 5. 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 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 UK government's commitment to create a civil society 'satellite account'.

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. More Scottish funders, alongside all parts of the Scottish government, should share their own data and participate in initiatives such as 360Giving.
- As part of a campaign to accelerate 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. This should be prioritised within Scotland's Volunteering Action Plan.
- UK and Scottish governments should play a coordination and leadership role on social sector data (working with leaders within the sector), including by delivering the promised civil society satellite account. They should create more data labs, ensure these are available and effective for organisations working in Scotland, and work 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 (DCMS) 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".³⁹ The Scottish government launched its Open Data Strategy in 2015⁴⁰, with a vision that by 2020 "Scotland will value data and responsibly make use of it in order to improve public services and deliver wider societal and economic benefits for all". In 2021, the economic value of open data was again recognised in the 2021 Digital Strategy for Scotland.⁴¹ However, research by the David Hume Institute found that over 95% of the data that "could and should be open was still locked up".⁴²

When considering civil society, there are three kinds of data that are vital 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.

"There's so much data coming in, we're keeping it to ourselves, or it's just going to funders. If we could pull that together effectively to show our impact, whether it be nationally, regionally, whatever, I think it's going to be hugely valuable." – Scottish charity

When it comes to problems with data about the sector, one example is how it is treated in the UK's national accounts, and the value that is assigned to it within that framework. 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 pay in the sector added 60%-80% to the value ascribed to the social sector⁴³ in the national accounts, an additional £22.3 billion.⁴⁴ 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. While added value

³⁹ National Data Strategy, Department for Culture, Media and Sport, December 2020

⁴⁰ Open Data Strategy, Scottish Government, 2015

⁴¹ A changing nation: how Scotland will thrive in a digital world. Scottish Government, 2021

 $^{^{\}rm 42}$ I Watt, What is open data and why does it matter? The David Hume Institute, March 2022

⁴³ 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.

⁴⁴ J O'Halloran, Double or nothing: charities may be more than twice as valuable as first thought, Pro Bono Economics, 2022

is reported on in economic statistics for the private sector (via their profit margin, which reflects the value their activity adds to input costs), this sort of added value is not recognised in economic statistics for the social (non-profit) 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, governments 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 difficult because it is not clear where charities are operating or what they are doing.

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 across the UK, 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.

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 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 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 deprived areas, philanthropic funding can help to leverage in private investment and increase returns on public investment.

Fifth, volunteering and participation. The demand for data about volunteering covers 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. Achieving significant improvements is made more challenging by the diverse nature of the social sector. For example, data can be found in different places for those constituted as charities and those operating as community businesses or social enterprises, while some organisations fall into both groups and therefore appear in multiple datasets. Gathering usable data and making it accessible is even more difficult when it comes to less formal community groups, which may not appear in any dataset. Initiatives from within the sector have made significant strides, in some cases, however, in partnership with the Scottish government. The <u>Scottish Third Sector Tracker</u> has been established by SCVO, the Scottish government and independent funders, as part of a planned strategic partnership to secure long-term funding and open access data. The OCSR has been very supportive of open access to charity and survey data and SCVO has worked to open up sector data and make it more accessible to others. Furthermore, the Scottish government has made a 10-year commitment to track the development of the social enterprise sector, including through a census of the sector every two years. 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 VCSE Data and Insights Observatory to work with organisations across the UK to capture data about management, delivery, and outcomes across the sector.

Box 6. 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

Co

comparison of funders, aggregation of data for local or sub-sectoral analysis, and line-byline 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 UK government has also taken steps to improve data about the sector, following the Commission's early work to establish the gaps and propose solutions. Most importantly, in February 2022, as part of the Levelling Up White Paper, the government announced that it would work with the ONS to take forward the Commission's recommendation to establish a new civil society 'satellite account' to better capture the value of the sector.⁴⁵ 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 UK government's Ministry of Justice (MoJ) and is a free service for organisations that work with offenders.⁴⁶ 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 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, ensure organisations in Scotland can benefit from them and to create new ones so that charities and other service providers can understand their impact. Expanding these labs would also 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 UK and Scottish surveys and administrative data, but it is inaccessible to either the sector itself or to policymakers. Surveys, such as the UK Innovation Survey, Employer Skills Survey and Small Business Survey Scotland, and administrative data held by the UK and Scottish governments 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.

⁴⁵ Levelling <u>Up the United Kingdom (p214)</u>, Department for Levelling Up, Housing and Communities, February 2022

⁴⁶ R Piazza et al, <u>Data labs</u>, a new approach to impact evaluation: an update from NPC, NPC, 2019

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 Scottish funders, including all parts of the Scottish government, local authorities and other public and voluntary sector funders, should participate in initiatives such as 360Giving. This was also recommended by the Third Sector Policy Circle, as part of the Social Renewal Advisory Board report in 2021.⁴⁷

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. The Scottish government, social sector organisations and business groups should prioritise promoting skilled volunteering within Scotland's Volunteering Action Plan, enabling charities to access specialised skills which can boost their productivity, for example: in data, digital technology, HR, strategy and management.

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, working with the UK and Scottish governments. 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).

Finally, the UK government and ONS should deliver the promised civil society satellite account, with the most comprehensive picture possible of the sector's value, ensuring that it is designed to meet the needs of Scottish stakeholders alongside those in other parts of the UK. 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.

⁴⁷ If not now, when? The Social Renewal Advisory Board Report, Scottish Government 2021

4. The finance landscape

"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 7. 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.
- An additional £5 billion per year could be raised from public donations if the UK matched other leading countries. If this benefited charities in Scotland in proportion to its share of UK public donations currently, around an additional £300 million would be added to charity income in Scotland.⁴⁸
- Weaknesses in current approaches to both contracting and grant-giving undermine their impact and can reinforce geographical and social inequalities. Short-termism, inefficient processes and restricted funding undermine the ability of the social sector to thrive and deliver its objectives.
- Improvements to funding approaches of public sector and independent funders would strengthen civil society immensely.

Recommendations

- The Scottish government, local authorities and other public sector funders should implement the commitment to fair funding by offering multi-year funding, covering the full cost of activities (whether through contracts or grants), taking account of inflation and supporting civil society organisations to pay staff the Real Living Wage.
- Public sector and independent grant-makers should shift their funding decisively towards investing in core costs and building charities' capabilities, alongside streamlining their application and management processes. They should support them to collaborate and engage strategically with policymakers and other stakeholders.
- Independent funders and charity infrastructure bodies in Scotland should advocate for the adoption of more effective funding practices across Scotland (as some are already doing). The OSCR should explore with the sector whether there are any steps it could take to support and spread better funding practices.
- The Scottish Government should appoint a Philanthropy Champion (as should the UK government) and local philanthropy champions should be appointed to draw funding into deprived areas, including through proven approaches such as match-funding schemes.
- The Financial Conduct Authority (FCA) should require both qualified and qualifying financial advisors to receive training on philanthropy and impact investing, as part of

⁴⁸ NCVO's UK Civil Society Almanac 2022 reports that in 2019/20, UK-wide the charity sector received £12.07 billion of income from the public. Of this, in Scotland charities received £0.73 billion. Applying the same proportions to £5 billion suggests around £300 million additional income could be generated in Scotland. However, as the NCVO Almanac notes, "figures for Scotland are based on supplementary data from SCVO and UK population weights. These produce an estimate of figures for these countries and for this reason, figures may not be directly comparable to the rest of the UK."

its work on environmental, social and governance (ESG) commitments and the Consumer Duty.

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

Civil society in Scotland has always relied on a mix of funding from the public, government, the private sector and the voluntary sector. In 2021, just over a quarter of the sector's income came from grants, a fifth of which were from the public sector. A quarter was earned from public sector contracts, while rents accounted for a further fifth of the sector's income. Finally, a fifth came from the general public through a mix of donations and sales.

The largest portion of the sector's £3 billion income from the public sector comes from local authorities – accounting for £1.5 billion. Another £849 million comes from the Scottish government, £314 million from other public bodies, such as Creative Scotland, and £325 million from the NHS and health and social care services.⁴⁹

The processes charities have to engage in to access this funding, and the terms on which it is given, play a crucial role in the health and impact of the sector.

Funding that does not cover the real cost of activities undermines the sector's financial sustainability and impact

In relation to funding received through contracts, a major concern for many is the high proportion of charities which have to 'subsidise' their work through other income, because contract payments do not cover the full cost of the activities delivered.⁵⁰

"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

The absence of inflation-linked uplifts to both contracts and grants further undermines the financial sustainability of the sector, its ability to pay staff fairly and its impact. Research by SCVO⁵¹ found that many organisations had not received an uplift for years, including one that had not received an increase for 13 years, a real-terms cut of 27% to their income. Scottish charities and funders, like those elsewhere in the UK, also report that much grant funding does not cover the full cost of the activities it is supposed to support. This leaves charities struggling to find funding to cover costs, such as staff training, property and other 'overheads', necessary to deliver projects, but not viewed as part of them, and therefore excluded by many funders.

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 - the public donates around 0.54% of national income to charity - and ranks near the top of international league tables of

⁴⁹ State of the Sector 2022, SCVO, 2022

⁵⁰ T Clay et al, <u>State of the sector 2020</u>, where we stood as the crisis hit, NPC, 2020

 $^{^{51}}$ S Ogilvie, Fair Funding for the Voluntary Sector, SCVO, 2022

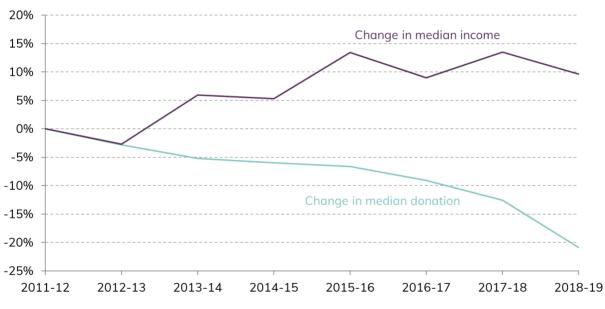
public donations. $^{\rm 52}$ Within the UK, research has shown that Scottish people are especially generous with both their time and money. $^{\rm 53}$

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. If this benefited charities in Scotland in proportion to its share of UK public donations, around an additional £300 million would be added to charity income in Scotland.⁵⁴

Although the income from charity donations has been rising, the number of people donating has steadily declined over the last 20 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.⁵⁵

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.





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

⁵² A Kenley, J O'Halloran, K Wilding, <u>Mind the giving gap: unleashing the potential of UK philanthropy</u>, Law Family Commission on Civil Society, December 2021

⁵³ CAF Scotland Giving 2019: an overview of charitable giving in Scotland, Charities Aid Foundation, 2019
⁵⁴ NCVO's UK Civil Society Almanac 2022 reports that in 2019/20, UK-wide the charity sector received £12.07 billion of income from the public. Of this, in Scotland charities received £0.73 billion. Applying the same proportions to £5 billion suggests around £300 million additional income could be generated in Scotland. However, as the NCVO Almanac notes, "figures for Scotland are based on supplementary data from SCVO and UK population weights. These produce an estimate of figures for these countries and for this reason, figures may not be directly comparable to the rest of the UK.
⁵⁵ For detailed method used to calculated these figures see 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

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, many deprived areas often have less access to philanthropic and grant funding, as well as suffering more from public sector funding cuts and a lack of private sector investment.

Stakeholders in Scotland see particular challenges because of the concentration of wealth in parts of England, but there are also opportunities to re-engage with those who live in England or elsewhere but have connections to Scotland. The idea of 'diaspora philanthropy' is being explored in England, for instance through the Made in Stoke-on-Trent network, which brings together local universities, football clubs, charities, philanthropists and the city council to stimulate investment in the area.⁵⁶ In 2011, the Community First programme was set up in England, with a Neighbourhood Match Fund (NMF) and an Endowment Match Challenge (EMC). The NMF was a small grants programme focused on the most deprived wards – with funding awards made by local panels. The EMC was undertaken in partnership with Community Foundations, aiming to help them develop long-term endowments for their localities. The UK government gave 50p for every £1 the public donated.⁵⁷ There was no equivalent programme for Scotland at that time, but the Scottish government, local authorities and independent funders can come together to create a similar programme to draw targeted, tailored investment to those areas that need it most.

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.⁵⁸

"Why can't funders make it easy for BME charities 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.⁵⁹

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..⁶⁰ During the Covid pandemic, the specialist 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.⁶¹

⁵⁶L Warwick-Ching, Diaspora philanthropists' aim to help revival of UK regions, Financial Times, October 2022
⁵⁷ N Sykes, Seizing the philanthropic prise: The role of the UK government in growing philanthropy, Law Family Commission on Civil Society, June 2022

⁵⁸ Voice4Change England, <u>Bridging the gap in funding for the BAME voluntary and community sector</u>, July 2015, The Runnymede Trust, <u>Shared Futures: Funders, Funding, and the BME Third Sector</u>, December 2021, and The Ubele Initiative, <u>Booska Paper: Exposing Structural Racism in the Third Sector</u>. April 2021

⁵⁹ Property experiences of BME-led voluntary organisations in Southwark, July 2022, Shared with Pro Bono Economics by the Ethical Property Foundation

⁶⁰ D Pippard, <u>Funding and racial justice: data driving change</u>, ACEVO, May 2021

⁶¹ 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, <u>Covid Fund for BAME charities was seven-times</u> oversubscribed, Civil Society, Feb 2022

Box 8. 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 in Wales first and then England 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 2017/18 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.

The third weakness in the social sector's finance landscape is the short-termism, restrictiveness and inefficient processes which reduce the effectiveness and impact of some 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 leads to uncertainty, leaving charities unable to plan for the future and contributing to the productivity challenges detailed above. It is inefficient forcing charities to expend valuable time and resources constantly reapplying for funding unnecessarily.⁶² 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

This issue was also highlighted by the Social Renewal Advisory Board,⁶³ which concluded:

"Single-year funding has been part of the Scottish funding context for several years now and should become, for the most part, a thing of the past. Multiyear funding commitments will help to deliver a secure and sustainable future for public services and the third sector, supporting charities to demonstrate

⁶² Unwin J, <u>The Grant-making Tango</u>, 2004, 29-30, and Newcastle Council for Voluntary Service, <u>The Voluntary and</u> <u>Community Sector in Newcastle upon Tyne – Part 2</u>, 2005

⁶³ If not now, when? The Social Renewal Advisory Board Report, Scottish Government 2021

their ability to add long-term value to address shared challenges in communities. This would provide stable third sector capacity to innovate, involve people who should benefit from public investment and collaborate freely, recognising the unique value of the third sector in being close to the communities facing those challenges."

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 projects well in the first place – often described as 'core costs'.⁶⁴ 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.

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.⁶⁵ 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.⁶⁶ 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.⁶⁷

The competitive nature of funding can also undermine the sector's effectiveness and 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." - UK 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

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.⁶⁸ In Scotland, charities reflected that there has been significant progress among some independent funders, such as the Robertson Trust, William Grant Foundation and the Corra

- ⁶⁵ H Barnard, <u>Giving Pains: The cost of grant-making</u>, Law Family Commission on Civil Society, 2022
- ⁶⁶ H Barnard, <u>Giving Pains: The cost of grant-making</u>, Law Family Commission on Civil Society, 2022
 ⁶⁷ T Neill, <u>46% of grants cost more than they</u>' re worth, *Time to Spare*

⁶⁴ Saxton & Lindström, <u>Taking Nothing for granted: a research report into what charities think a model grant-maker looks</u> <u>likehttps://ellerman.org.uk/uploads/Taking-nothing-for-granted-Report-June-2012-nfpSynergy-and-John-Ellerman-Foundation.pdf</u>, 2012

⁶⁸ See for instance IVAR's list of <u>Flexible Funders</u>, a group of over 100 grant-makers that have signed up to funding charities in an open and trusting way, including offering flexible grants.

Foundation. However, not all are moving in this direction, undermining the good effects of those who are taking action.

"We try to add unrestricted funding to allow this kind of thing. But when we ask charities what they use that for, it tends to be used to backfill gaps in other projects." – Scottish funder

Similarly, the Scottish government's commitment to adopt fair funding principles for the sector in December 2022 is very welcome, but it must be implemented through tangible changes to funding practices across the public sector.

Box 9. Case study: Robertson Trust

The Robertson Trust is a 60-year-old independent funder which focuses on building solutions to poverty and trauma. It works through grant funding, providing non-financial support to charities and influencing policy and practice change. In 2021-22, it provided £16.6 million in grants.

In 2022-23, in response to the cost-of-running crisis facing charities, the trust made topup payments of at least 10% on the current year's award for all grant holders, using a sliding scale percentage system through which smaller charities received the highest percentage increase. The trust is committed to the Institute for Voluntary Action Research's (IVAR) 'open' and 'trusted' grant-making principles, which challenges it to continue improving and benchmarking alongside its peers. Responding to consistent feedback from the Scottish third sector, IVAR encourage unrestricted funding requests to meet core costs and provide multi-year funding – typically for three years and occasionally more.

The trust also values building relationships with grant-holders, to develop its knowledge of how best to contribute to making change happen and understand the challenges charities face. It tries to ensure its contact is proportionate, and it is also working to offer grant-holders opportunities to come together with other funded organisations, to share learning, good practice and build purposeful connections. The trust has also partnered with The Lens to provide grant-holders access via an online PRISM platform to learning resources that will help to turn their ideas into action and connect with other members of the community to build peer support.

Recently, the trust made an open call for Financial Security Programme Awards with a two-stage process using a participatory approach to assessment and giving 'development awards' to the final group of applicants going on to the second stage.

Box 10. Case study: William Grant Foundation

The William Grant Foundation distributes around £4 million per year in Scotland to organisations working in a wide range of fields, from culture and environment to young people and health. Its funds are derived from the annual profits of a family-owned business, William Grant & Sons. It sees itself as primarily a funder of organisations, rather than projects, enabling effective or promising charities to better pursue their mission. It aims to treat its relationships with grantees as shared learning opportunities.

Grants are designed to be as flexible as possible, to the extent that the recipient organisation's work aligns with the foundation's own charitable aims. This means that sometimes grants are broadly restricted to a particular part of an organisation's work, but almost half of its grants are entirely unrestricted. The foundation uses research and networks to identify prospective grantees, but often provides funds for regranting by other funders via open calls for applications when it feels that is an appropriate way to target recipients. For example, it provides funds to support grants to individual artists and creatives made by the Dewar Arts Awards charity.

The 100 or so grants the foundation makes directly to charities each year are agreed through a process of dialogue about each organisation's needs and ambitions. It often uses an approach it calls 'designated unrestricted funding', where a grant is agreed as a result of a particular plan or project for which a charity has a funding need, and this becomes part of the focus for subsequent reporting, but the grant is made on an unrestricted basis.

Although its ability to make formal long-term commitments is constrained by the flowthrough nature of its own annual funding from the company, the William Grant Foundation often makes repeat grants to organisations. In 2022, over a fifth of its funding relationships extended for five or more years. In 2023, it proactively added a 10% unrestricted increase to the remaining instalments of previously agreed multi-year grants in order to reflect the sudden rise in inflation.

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 2022, the Edinburgh Voluntary Organisations Council (EVOC), working with a number of Scottish funders, started to develop a similarly ambitious new fund. The Regenerative Futures Fund⁶⁹ 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 funders, including both public sector and independent funders, would give social sector 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.

Government, independent funders, philanthropists and charities can work together to increase and improve funding for Scotland's social sector The Commission is proposing a four-point plan to increase and improve funding.

First, to continue growth in good practice, more funders - including independent, private and public sector funders - should offer long-term, more flexible funding; invest in building charities' capabilities; and streamline application and reporting processes. Improved funding requires a shift towards more sustainable, stable finance for social sector organisations, unencumbered by overly laborious processes, to maximise the efficiency of the system and the impact delivered.

⁶⁹ Details provided here: https://www.evoc.org.uk/projects/regenerative-futures-fund/

The Commission supports the calls made by SCVO for the Scottish government to fulfil its commitment to fair funding by ensuring that public sector funders offer:

- Longer-term funding, ideally of three years or more.
- Flexible, unrestricted core funding.
- Funding which covers the full costs of delivering activities (whether through contracts or grants) and takes account of inflation.
- Funding which enables civil society organisations to pay staff the Real Living Wage and provide secure jobs.
- Accessible, streamlined application processes and proportionate reporting requirements.

National and local funding should also be shaped to support civil society organisations to engage effectively in strategic relationships and to promote collaboration, rather than competition.

This shift in funding approach by the Scottish government and local authorities needs to be supported by the various bodies which scrutinise them. It is vital for officials to be held to account for their use of public funding, but this can deter more effective ways of working if it focuses too narrowly on assessing 'outputs' - pre-determined measures of activities delivered - rather than longer-term outcomes and the trust-based partnerships which support them. Bodies such as Audit Scotland and the Accounts Commission should ensure they have the right approach, skills and resources to assess the use of public money more broadly. For instance, scrutinising and valuing the quality of relationships between the public sector and civil society partners and the extent to which leaders empower their staff to collaborate effectively.

Second, those independent funders already adopting more effective funding practices should advocate strongly to their peers and to public sector funders for the benefits of taking these up, and this should be supported by charity infrastructure bodies in Scotland (as some are already doing). The Commission has recommended that the Charity Commission for England and Wales should play a more active role, working with the sector, in highlighting more effective forms of grant-giving and helping charitable grant-makers to access information, support and tools to support this. The OSCR should also explore with charities in Scotland whether there are any steps it could take to support moves to better funding practices there.

Third, the Scottish government should appoint a Philanthropy Champion to drive forward Scotland's approach to philanthropy. The Commission has also recommended that the UK government appoint such an official, with the resources and authority required to coordinate cross-government action on measurement, regulation and taxation of philanthropy in order to unlock its potential.

"Look at the effort universities put into finding and developing philanthropic sources. We don't have the equivalent capacity for the rest of the third sector." – Scottish charity

Local authorities, especially those in deprived areas, should also appoint local philanthropy champions to encourage giving by the business community and wealthy individuals who grew up in their area (including those now living outside Scotland). They would also gather and spread best practice and work with councils, MPs and expert local organisations to understand local need and connect it with interested donors.

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 nonprofits to deliver targeted programmes; improving internal contracting processes, regulation and guidance; and assisting non-profits to leverage funding.

A national champion 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-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 Aid⁷⁰ in these areas to support such schemes.

Finally, the Commission has recommended that 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. 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 2020.⁷¹

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

⁷⁰ When members of the public donate using Gift Aid, charities can claim an additional 25p for every £1 donated (as long as it qualifies for this tax relief: https://www.gov.uk/donating-to-charity/gift-aid

⁷¹ N Sykes, <u>Giving advice: the case for the FCA to act on philanthropy</u>, Law Family Commission on Civil Society, 2022

Co

sector-wide conversation on philanthropy's potential and the barriers preventing financial advisors from speaking to their clients about charitable giving.

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.

5. 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 12. 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.
- There are many examples of fruitful partnerships between charities and businesses in Scotland, but great scope and appetite to increase their spread and impact.

Recommendations

- Business and civil society umbrella organisations in Scotland 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. Initiatives focused on specific business sectors and on local areas are seen as having the most potential to advance this.
- Charities, businesses, investors and advisors should work together to improve the measurement of businesses' social impacts and the value of civil society partnerships and drive the use of voluntary disclosure initiatives to encourage more businesses to engage with civil society.
- The Scottish government's Economic Development Directorate should work with the UK government Department for Business and Trade (DBT) to reinstate the requirement for businesses to report their contributions to charities and civil society.
- Ahead of this, they 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.⁷² 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,

⁷² N Sykes, <u>Purpose: On parallel tracks</u>, Law Family Commission on Civil Society, August 2021

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 (66%) 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 McOuaid, Marks & Spencer

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. There are particular opportunities in Scotland to connect this with the Scottish government's adoption of a Community Wealth Building approach to economic development.⁷³ Finally, businesses can of course claim tax relief when they make financial donations to charities.

Box 13. 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.⁷⁴

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

⁷³ <u>Community Wealth Building</u>, Scottish Government,

⁷⁴ N Sykes, <u>Purpose: On parallel tracks</u>, Law Family Commission on Civil Society, August 2021

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. The social sector in Scotland receives £91 million in funding from the private sector every year.⁷⁵

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

There are many examples of highly effective partnerships between Scottish charities and businesses, but there is scope to create far more 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. Some businesses feel that the way charities view them is too transactional – with approaches always focused on fundraising rather than more substantive partnerships.

"We did a bit of research and one thing that came back from the private sector was that [charities] are always interested in transactional relationships – asking for money. How do we make it more about partnerships?" – Scottish charity

More substantive partnerships based on common values and an exchange of skills and insight were felt to bring far greater benefits.

"One example of a more genuine partnership... A theatre company and a Scottish autism charity. The theatre company paid them as a consultant to help them to make an autism-friendly version of their performance at the Edinburgh Festival. And they did a really, really good job of it. It was really good practice because it was informed by those experts. So, [the charity] gets money for doing what they did and the partner got to do the thing that they wanted." – Scottish charity

 $^{^{\}rm 75}$ State of the Sector 2022, SCVO, 2022

"I think there are examples around Scotland where particularly small- and medium-sized businesses in a place are working in different ways with the communities. We often think about the big companies but we shouldn't ignore [SMEs] because some of them are doing things like sponsoring a football team. And they haven't got big budgets, but what they are doing is making that money go really far. And the capacity building as communities can be quite strong." – Scottish charity

At a broader level, the work of Arts and Business Scotland is a striking example of an organisation working to connect the cultural and business sectors, providing support, training and brokerage services to both sides to develop their capacity to work effectively together.

Similarly, there are examples of private sector funders who exemplify the type of grantmaking charities viewed as most impactful – long-term, funding core costs, flexible, responsive, with a light touch process and genuine understanding of what the charity is trying to achieve. However, these are not yet seen as the norm.

"Baillie Gifford do a really good funding programme. That's about building those longer-term relationships. And they have funded us for infrastructure costs...like actually, 'Yes, you can use the money we'll give you towards your fundraiser.' And that's a game changer. So, it's about that interest, that feeling of being trusted...And: 'What's the next service? What's the next response that we need to have?' It's not 'what did you spend your pocket money on?'" -Scottish charity

"They are quite exceptional. It would be beautiful if the world was more like them, but most aren't like them." – Scottish charity

"There is a group of philanthropists that set up a project that targets young people with poverty and trauma. They've done a review and really targeted geographically and on need - the focus is on depth, rather than breadth. They're really engaged. So, we've got a visit [from them] next week. And it's not a visit to see how we've spent £10,000. It's 'we want to hear more of what's going on for you. And we want to understand how we respond to that'. So, it's not a check-up. And that is a really different kind of funder visit and will be a much more productive funder visit." – Scottish charity

Both businesses and charities also recognised that the social sector could benefit significantly from the skills and other resources businesses could bring, rather than simply focusing on direct financial support.

"The question [is about] the added value that companies can bring to the sector beyond this- the business opportunities to leverage some of the skills within the business - but there's less of a structure to allow that to happen. I think there is a great opportunity for businesses to take a more proactive approach around volunteering, to support employees to engage with the sector in a way that makes genuine use of their skills. [For instance], on data but also, I think, crucially, on governance. I think there's a real opportunity to support the understanding within businesses [of the support their employees can give charities in relation to] governance and [how they can] support some of their talent to do that." – Scottish business

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'.

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 Foundation (IFRSF), 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.⁷⁶

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. Partnerships with civil society can be invaluable to businesses in relation to each of these areas of social impact.

"The sector has a lot of expertise to share. Lots of private sector organisations are using the UN Sustainable Development Goals to map ESG. Charities could use that as a common language." – Scottish charity

"There's a new platform looking at what skills arts organisations can bring to business, including supporting staff, for example, with autism awareness, the S in their own ESG, understanding people and wellbeing. There's some good case studies of where it's matched charities to businesses." – Scottish business

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

⁷⁶ Regenerate, <u>Solve S for ESG: how businesses can approach the S in ESG and how partnerships with civil society can help</u>, 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 to help unlock the untapped potential of more and better links between businesses and civil society.

First, business and civil society umbrella organisations in Scotland 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. Stakeholders in Scotland suggested that specific initiatives could target sectors - such as financial services (the biggest sectoral contributor to Scotland's economy at £13 billion, or 9.4% of GVA⁷⁷), the pensions industry or construction - and local areas, particularly focusing on the role of SMEs in community-building. Both businesses and charities should take advantage of the opportunity to connect these endeavours with the Scottish government's Community Wealth Building approach to economic development.

The CSEVO discussed above should also help to generate and disseminate relevant evidence to support this, and local infrastructure organisations should play an active role in helping businesses and charities to connect.

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 **the Task Force on Inequality-related Financial Disclosures** (TIFD).

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 Scottish government's Economic Development Directorate should work with the UK government's DBT 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.⁷⁸ 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.

⁷⁷ Scotland's Financial Services Strategy, Scottish Financial Enterprise, May 2021

⁷⁸ Regenerate, <u>Solve S for ESG: how businesses can approach the S in ESG and how partnerships with civil society can help</u>, Law Family Commission on Civil Society, September 2022

Ahead of mandating disclosure, UK governments should use tax relief and both the UK and Scottish governments should use 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).

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.

6. 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 14. 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.
- There is a strong bedrock of engagement and respect between charities and policymakers, with more widespread and positive connections within Scotland than are experienced in some other parts of the UK.
- However, there are still weaknesses to overcome in order for these relationships to deliver the maximum benefit for both sides.
- Despite positive views, policymakers do not always have a strong understanding of the purpose, funding and structure of the social sector.
- Some engagement is seen as tokenistic, with policymakers failing to recognise the value of civil society's contributions or to implement processes which enable genuine collaboration.
- Effective engagement requires both sides to have the personnel and time to support it, but many charities struggle to find funding which supports this and cuts to public sector budgets can similarly undermine policymakers' ability to do so.
- The Scottish government's approach to engagement can be unsystematic, meaning charities have to repeatedly 'make the case' for their involvement and are absent from some advisory structures and processes which would benefit from their insight.

Recommendations

- Policymakers and the social sector should work together to create more opportunities and momentum for volunteering by policymakers and for both policymakers and social sector workers to undertake secondments in other sectors.
- The Scottish government should review the membership of formal advisory structures and ensure appropriate civil society representation, alongside ensuring that initiatives such as City and Regional Growth Deals routinely build in the involvement of the social sector as they do the private sector. The government should also recommit to putting in place reasonable timelines, accessibility and resources for consultations to be genuinely useful to both sides.
- Funders should support charities' capacity to engage effectively with local and national policymakers, recognising the value of this in advancing their charitable goals and incorporating resources for it into their funding approaches.

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.

At a UK level, 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 2010.⁷⁹ 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 Scotland, the 2009 Concordat laid down a series of principles and commitments for how the Scottish government, local authorities and the social sector would work together. There have since been other concordats agreed between local authorities and local civil society organisations, and these have been used to try and embed collaboration principles so that they are not lost when individuals move on.

Throughout these shifts in emphasis, charities have remained a crucial part of 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. Charities are major public service providers in Scotland. 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.

There is already a strong bedrock of respect and engagement

Research across the UK shows that nearly all MPs (92%) and councillors (92%) are in contact with a charity or community group, regardless of political party.⁸⁰ 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.

⁷⁹ 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

⁸⁰ All figures on policymaker attitudes are from H Barnard & G Hoare, <u>A shared interest: The relationships between</u> policymakers and charities, Law Family Commission on Civil Society, March 2022

Figure 8: Nearly all policymakers are in contact with charities

Which, if any, of the following activities have you engaged in in the past 12 months? 96% Contact with a local small business 9<u>2%</u> Contact with a local charity or community group Contact with a large national or multinational 76% business or business representative body Used the evidence or insights provided 70% by a charity I am familiar with Contact with a large national charity MPs 68% or charity sector umbrella body Councillors Used the evidence or insights work provided 58% by a business I am familiar with Volunteered my time 36% Been the trustee of a charity I have been on the board of a private company, 12% or been a non-executive director 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

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

In Scotland, charities report a high degree of openness from politicians and civil servants to engaging with the social sector and involving them in policy discussions. This is reflected in research showing that charity leaders in Scotland (and Northern Ireland) are more likely than those elsewhere in the UK to believe their governments value charities' contribution to public policy development, service delivery and connections to communities.⁸¹ Those with experience of working in other parts of the UK were impressed with the access they were able to have to civil servants and politicians in Scotland, particularly compared to their experience of the UK government. They found Scottish policy makers tended to reach out more proactively to them for ideas or responses to policy issues than was the case at the UK level. However, those with a long history of working in Scotland felt that there had been even greater openness and desire for input in the early days of the Scottish government and Parliament being established.

"It's very hard to have links with UK ministers but we do have more access in the Scottish context. Also, in Scotland and Wales, we have had stable governments, contrasted with churn at UK level." – Scottish charity

"I was running a charity in England with very little access to parliamentarians in Westminster. So, I've been really positively impressed with the access we've had with their civil servants and MSPs...they've actually reached out to us for responses and advice on different elements of policy." – Scottish charity

"When the [Scottish] parliament was first established, it was very open. And it did feel genuinely collaborative. But the attitude of the [Scottish] policymakers to me feels like it's shifted." – Scottish charity

⁸¹ Charity Landscape 2022, Charities Aid Foundation, 2022

There are still weaknesses to overcome in relationships with Scottish policymakers, for both sides to gain maximum benefits from their links

Despite the many positive connections and high level of mutual respect between policymakers and charities, there remain weaknesses which hold these connections back from always being translated into genuine collaboration and maximum impact. Stakeholders in Scotland highlighted five main issues which should be addressed.

First, despite high levels of contact and positive views, policymakers do not always have a strong understanding of what the social sector does, particularly its roles beyond service delivery. This goes beyond MSPs, with people across the public sector sometimes misunderstanding the structure, purpose and funding of charities, which can lead to unrealistic expectations and strained relationships.⁸²

"In some informal polling with MSPs, about what they think of the sector, it was pretty fluffy - so they think quite favourably of the sector, but they don't really know what we do." – Scottish charity

Second, some engagement with the social sector was felt to be tokenistic, with too little time or resources available to enable consultation. This was also reflected in practical arrangements, such as very short periods for organisations to respond to consultations, consultations launched over holiday periods and a lack of consideration for accessibility needs - meaning that some individuals and organisations were effectively excluded from responding.

"There are certainly some areas where it feels slightly like a tick box exercise where they're bringing together groups of NGOs and academics to say, 'We want to consult with you on this.' But also saying, 'But we've got no time and money to actually do a proper consultation.'" – Scottish charity

"You look back to when we had the concordat with government: there was supposed to be a minimum three-month period for consultations. So, people could consult with their networks, bring in more diverse voices. SCVO did some analysis recently and found they aren't, they're often much shorter. And for organisations or individuals with accessibility needs there isn't always an easy read version, or it comes very late." – Scottish charity

Third, charities argued that neither policymakers nor funders appeared to recognise the need for resources to enable them to engage effectively in the policy process. Some described taking part in consultation or advisory processes in which public sector participants were paid for their time, or their organisations were given funding to backfill their position, but this was not offered to social sector participants. Similarly, the restrictive approach of many funders meant that finding resources to support work with policymakers was extremely difficult.

Fourth, charities believed that cuts to both the Scottish government and in local authorities made it more difficult to maintain relationships with officials and for measures like secondments to be arranged to give social sector staff experience in the public sector and vice versa. This chimes with the Commission's findings in relation to local level relationships between the social sector and policymakers.⁸³ The Commission recommended a shift from

⁸² P Bradley, Organisational profiles: funding and public sector relationships, SCVO, October 2022

⁸³ Unleashing the power of civil society, Law Family Commission on Civil Society, January 2023

fragmented and often transactional relationships to creating strategic relationships between the local authority and the local social sector as a whole. However, achieving it requires local authorities to have the capacity internally to create and sustain such relationships. It also requires the local social sector to be willing and able to work in a coordinated way, engaging strategically and looking beyond individual organisational interests. Suitable funding and independent, well-resourced local social sector infrastructure organisations are crucial enablers for the social sector to do this.

Finally, Scottish charities were frustrated at the unsystematic nature of their involvement in policymaking and government structures. They argued that the social sector should be routinely included in initiatives such as Growth Deals for cities, rather than having to repeatedly make the case for their inclusion. The lack of a structured approach and cross-government commitment is also reflected in the limited and patchy nature of social sector representation on advisory bodies, as discussed above.

These concerns echo those found in Scottish government research into barriers to collaboration between the public sector and social sector organisations.⁸⁴ Among the barriers identified were;

- Short-term and inflexible funding for social sector organisations.
- Inadequate understanding of one another among both social sector and public sector organisations.
- The tendency for procurement practices to drive competition rather than collaboration within the social sector.

In 2009, the Scottish government, the Convention of Scottish Local Authorities (COSLA), the Society of Local Authority Chief Executives (Solace) and SCVO signed the Concordat, setting out how they intended to interact. The statement included commitments such as including a social sector representative on Community Planning Partnership Boards (which determined local spending priorities), three-year funding cycles, taking account of inflation in funding arrangements and not expecting charities to contribute to the cost of services.

Over the years, there has been much debate about the effectiveness of the Concordat. However, it was a striking statement of the importance placed on the relationship with the social sector by both the Scottish government and local authorities, and many of its principles are just as relevant and significant today as they were at the time.

The Commission believes three steps would achieve significant improvements in the relationships between Scottish policymakers and the social sector.

First, creating more opportunities and momentum for volunteering by policymakers and for both policymakers and social sector workers to undertake secondments in other sectors.

This chimes with the recommendation of the Social Renewal Advisory Board that we need to embed cross-sector engagement and exchange opportunities across sectors in order to create the strong relationships and trust needed for effective collaboration.⁸⁵

"Purposeful cross-sector engagement and exchange opportunities should become a normalised part of career development and induction. Developing collaborative approaches that focus on change will require a high degree of

⁸⁴ Supporting collaboration between the third and public sectors: evidence review, Scottish Government, October 2022

trust and strong relationships. The space and capacity for these will be crucial. We can learn much from the collaboration achieved during the crisis and maximise the learning through, for example, greater use of exchange schemes and cross-sector mentoring. Understanding each other's sectors, motivations and cultures means we can build relationships and move to collaborative working at greater pace and with greater chance of success. This approach could also be expanded to help with career progression for a diverse range of analysts and officials across sectors."

Second, the Scottish government should review the membership of formal advisory structures and ensure appropriate civil society representation. Similarly, initiatives such as City and Regional Growth Deals should routinely build in the involvement of the social sector as they do the private sector. The government should also recommit to putting in place reasonable timelines, accessibility and resources for consultations so that they are genuinely useful to both sides.

Third, funders must support charities' capacity to engage effectively with local and national policymakers, recognising the value of this in advancing their charitable goals and incorporating resources for it into their funding.

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 society, enable charities to maximise their impact and support an operating environment that contributes to the sector's resilience and effectiveness.

Conclusion

If Scotland'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.

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.

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.

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 are most often excluded are present and 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 – independent, private and public sector - 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 improvements to the relationships between civil society and government - civil society can be unleashed and a better Scotland built for all.

Co

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. The UK and Scottish governments should provide social sector organisations with access to productivity schemes currently restricted to businesses and support and encourage their participation in them.
- 4. The Scottish government should build on its earlier review of local infrastructure and consider with the sector how far the current network meets its needs and, in particular, whether development is required in order for it to fulfil the role of 'diffusion architecture' and boost productivity.
- 5. The Scottish government, social sector organisations and business groups should prioritise promoting skilled volunteering within the Volunteering Action Plan, enabling charities to access specialised skills which can boost their productivity, for example: in data, digital technology, HR, strategy and management.

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) Code of Practice for Statistics where relevant.
- 7. Funders should encourage and support charities to collect, use and share high quality data. More Scottish funders, including all parts of the Scottish government, should share their own data and participate in initiatives such as 360Giving.
- 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. This should be prioritised within Scotland's Volunteering Action Plan.
- 9. UK and Scottish governments should play a coordination and leadership role on social sector data, including by delivering the promised civil society 'satellite account'. They should create more data labs, ensure these are available and effective for organisations working in Scotland, and work 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.

- 10. The Scottish government, local authorities and other public sector funders should implement the commitment to fair funding by offering multi-year funding, covering the full cost of activities (whether through contracts or grants), taking account of inflation and supporting civil society organisations to pay staff the Real Living Wage.
- 11. Public sector and independent grant-makers should shift their funding decisively towards investing in core costs and building charities' capabilities. They should support them to collaborate and engage strategically with policymakers and other stakeholders and streamline their application and management processes.
- 12. Independent funders and charity infrastructure bodies in Scotland should advocate for the adoption of more effective funding practices Scotland-wide (as some are already doing). The Scottish Charity Regulator (OSCR) should explore with the sector whether there are any steps it could take to support and spread better funding practices.
- 13. The Scottish government should appoint a Philanthropy Champion (as should the UK government) and local philanthropy champions should be appointed to draw funding into deprived areas, including through approaches such as match-funding schemes.
- 14. The Financial Conduct Authority (FCA) should 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) commitments and the Consumer Duty.

4. Bringing businesses and civil society together

- 15. Business and civil society umbrella organisations in Scotland 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. They should prioritise initiatives focused on specific business sectors and on local areas.
- 16. Charities, businesses, investors and advisors should work together to improve the measurement of businesses' social impacts and the value of civil society partnerships, and drive the use of voluntary disclosure initiatives to encourage more businesses to engage with civil society.
- 17. The Scottish government's Economic Development Directorate should work with the UK government's Department for Business and Trade (DBT) to reinstate the requirement for businesses to report their contributions to charities and civil society.
- 18. Ahead of this, they 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. Policymakers and the social sector in Scotland should work together to drive up volunteering by policymakers and create more opportunities for both policymakers and social sector workers to undertake secondments in other sectors.
- 20. The Scottish government should review the membership of formal advisory structures and ensure appropriate civil society representation. Similarly, they should ensure that initiatives such as City and Regional Growth Deals routinely build in the

involvement of the social sector as they do the private sector. The government should also recommit to putting in place reasonable timelines, accessibility and resources for consultations to be genuinely useful to both sides.

21. Funders should support charities' capacity to engage effectively with local and national policymakers, recognising the value of this in advancing their charitable goals and incorporating resources for it into their funding.

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