# A BALANCING ACT: CHARITIES AND THE 2016 BUDGET

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## Introduction

On 16 March, the Chancellor will deliver the Budget. Charities should be braced for another challenging settlement: George Osborne has already said that a sluggish global economy and slower than forecast UK growth may mean bigger cuts to public spending than originally anticipated. The Institute for Fiscal Studies (IFS) has predicted[1] *'more tough decisions to come'*. Charities and others will be looking out for the re-emergence of ideas that were shelved in the autumn statement.

The public spending decisions outlined in the Budget will affect charities—and their ability to deliver a positive impact for their beneficiaries—in different ways. The Chancellor has signalled that he would rather make additional cuts in the Budget than raise taxes or break the rule to which he is working—of achieving a surplus by 2020—so we should be prepared for the possibility of further cuts to unprotected departments. Changes in the approach to welfare, housing, and other areas will, most likely, place additional demands on charities as greater numbers look to them for help and advice.

In addition—for charities working in health and social care—there are the knock-on effects of an NHS tasked with finding £22bn in efficiency savings by 2020, as well as from a creaking social care system facing ever-increasing need and the impact of the national living wage on a traditionally low-wage sector. The Chancellor, having already invested £10bn in the NHS in the 2015 Spending Review, is unlikely to allocate more funding for the health service in this Budget, but the crisis in social care remains: the environment in which health and social care charities operate will continue to be challenging.

Charities are relied upon to provide support for those most in need, often maintaining essential services that the Government cannot (or will not) carry out, and that are not the territory of private companies. As central funding for local authorities changes—the Spending Review introduced cuts of 6.7%[2] over the course of the Parliament on top of cuts made in the last Parliament—grants and contracts to support charity work at a local level will grow scarcer.

With the EU referendum coming up in a few months' time, the Chancellor faces a delicate balancing act between sticking to his own economic rules, satisfying a restless Conservative party, and bringing the rest of the country along with him. In this paper we examine the political context in which the Budget is taking place, and consider what it might mean for the voluntary sector. *A balancing act* focuses on parts of the sector that have already seen significant change, and where NPC believes there may be new opportunities emerging for charities. We consider the Government's 'life chances' agenda; new ideas for social investment to fund charitable work; the future shape of local authorities; and the war over welfare.

## The 'life chances' agenda

As David Cameron looks beyond the EU referendum towards the legacy he will leave behind, the Government has begun to sketch out a view on tackling entrenched social disadvantage. This includes reforms to the criminal justice system, and to the way we tackle alcohol, drug dependency, and mental health issues. This is potentially fruitful territory for a voluntary sector well placed to help people facing such challenges—and the Budget is the first chance to see whether this rhetoric will be matched by promises from the Treasury.

In January the Prime Minister delivered his 'life chances' speech[3] in which he made his case for earlier intervention in the lives of troubled individuals and families in order to build their health and resilience. David Cameron stressed the importance of strong, positive relationships to support people as they try to change their lives. His speech—which bears the unmistakable influence of the Centre for Social Justice—assumed a role for charities in helping people achieve this, but without fully articulating that role. NPC's Chief Executive Dan Corry explored key questions when he spoke in response[4] to the 'life chances' agenda: Are charities in a position to make a strong case for involvement in this agenda? How far can the Government's efforts succeed without a parallel focus on family income?

In addition to this, Michael Gove has rapidly come to be seen as a criminal justice reformer. Gove has overturned some of the Legal Aid cuts and the book ban introduced by his predecessor in office, and pushed for power to flow away from central government to individual prison governors who will be granted *'total discretion'*[5] over how they choose to spend their budgets. This too has implications for charities, and raises questions. What role will the Government (and the What Works Centre for Crime Reduction) play in ensuring the use of evidence in governors' decisions, to ensure that new approaches come with robust data to show that they work? Will the system have sufficient resources to make the promised autonomy a reality? And how does this autonomy play alongside the big, top-down Transforming Rehabilitation contracts created by Gove's predecessor—those that effectively shut out charities[6] from a lot of this market, and certainly from being prime service providers?

As ever, though, the scale of government cuts casts a long shadow. The central 'administrative' budget at the Ministry of Justice is set to be cut in half[7] between 2015 and the end of the Parliament (as announced in the Spending Review) which will mean massively decreased capacity centrally for effective analysis. Considering that justice policy is such a data-rich area—with scope to learn much more about the effectiveness of different interventions—it is essential that this insight is not lost. The Justice Data Lab[8], developed by NPC in conjunction with the Ministry of Justice, has opened up central data to charities so they can better understand where they are being most effective. Such work needs to be continued.

The crime and justice sector is in a state of flux, and we could be at the beginning of a step change in how prisons work. There is a recognition that the current system is not working, coupled with a clear economic incentive to change the situation. But the shape these improvements might take remains ill-defined, and the role of charities in the criminal justice sector is fragile. We risk losing the important contribution charities make in this area. The Prime Minister said he wanted to ensure *'a strong role for businesses and charities'* in the new *'reform prisons'* he has proposed, but the sector's experience of working alongside the Ministry of Justice to bid for contracts is not positive, as evident in the Transforming Rehabilitation process[9]. Good intentions are not enough: the Government must be clear in its thinking about how charities fit into delivering these justice reforms, and design the new system accordingly.

## Social investment

The Government has committed £105m over the course of the Parliament to support the use of Social Impact Bonds (SIBs) to fund work in homelessness, mental health, and youth unemployment, and is clearly excited by the potential of this form of funding. Minister for Civil Society Rob Wilson has suggested that the SIB market could be worth £1bn[10] by the end of the Parliament.

It is difficult to see how this ambition can be realised without wider policy changes. For example, in cases where the complex problems an individual faces are interrelated but dealt with by different agencies, the pooling of budgets between commissioners could increase the number of SIBs by enabling payments to be made on the basis of positive outcomes across more than one commissioner.

However, the Government shied away from adopting calls from Big Society Capital and others[11] to introduce such an approach at the Spending Review. If it is to revisit the idea in an attempt to grow the SIB market, it will be critical to ensure lessons from previous Payment-by-Outcomes schemes are heeded—not least in developing robust 'distance travelled' outcomes so that charities are able to help those facing the toughest barriers. If we are to hear more about SIBs in the Budget, NPC will be looking for assurance that they will be used to fund innovation, rather than as a wholesale funding model to replace commissioning and grants for charities.

SIBs are just one part of the wider social investment landscape. This is still a nascent market and there is a risk that too much is being expected of it too soon. Potential investors face a lack of clarity and transparency surrounding social investment products and regulation. Furthermore, there is insufficient demand from social organisations, many of which lack the financial skills and knowledge to manage such investments. Further support for skills development along the lines of the Impact Readiness fund[12] will be needed to ensure the charity sector can take advantage as the social investment market develops further.

The Charities Bill[13] introduces a power for charities to make social investments, and defines, it for the first time, in legislation. While this power is not new—in practice, this has always been an option for charities under their charitable mission—it is intended to send a strong positive signal to the sector. The Government believes there is a great deal more scope for charities to act as social investors. How many charities will take on this risk remains to be seen, but there could be synergy between a charity's investments and its activities, and the possibility of bringing funding into underfunded areas.

Additional funding for the sector is in very scarce supply, so charities will look out for any details on the Dormant Assets Commission[14]. The Commission was established last year to identify and redistribute unclaimed assets like stocks and shares, with a likely focus on helping out smaller charities. The Cabinet Office has predicted that as much as £1bn will be unfrozen for good causes over time, and time will tell how far this alleviates the pressure on charity budgets created elsewhere.

## The game-changer: The future shape of local government

A wholesale transformation in the roles of central and local government is under way. While central government departments are facing further cuts, the transfer of responsibilities to local government continues apace. By the end of this decade, councils as a whole will be funded entirely from revenues they raise locally, rather than central government grants. These are radical reforms, the full effects of which are yet to be seen.

We can expect to see further announcements on devolution in the Budget, whether brand new deals, further detail on existing arrangements, or additional elements to deals already announced. NPC has written about the 'devolution revolution'[15] elsewhere, with city regions coming together and mayors handed significant new powers for setting local spending plans.

There are potentially great opportunities for local areas to innovate and set their own agenda to transform public services and create more holistic interventions for people who access lots of different programmes. However, the hollowing-out of the commissioning profession and the growing trend towards larger, more generic contracts does not give confidence that these opportunities will be grasped fully. Meanwhile, it is also a highly uneven picture—people and charities in areas *not* covered by the devolution revolution risk losing out.

Charities need to engage with this agenda to shape local plans as they develop. Many are already doing so, but this is not easy: knowing how and with whom to engage in such a fast-changing landscape is not straightforward.

There are numerous local players involved in these discussions, and one of the consequences of cuts to local authority funding has been considerable staff churn. Small charities in particular face challenges in finding the time, knowledge and skills to do this effectively. As NPC has argued previously[16], engaging collectively and providing evidence of impact in particular areas is of paramount importance.

As part of their 'devolution revolution', the Government has committed to the full devolution of business rate income by 2020[17]. The most likely effect may be that it gets harder for sector bodies to win the argument to maintain a national policy on business rate discounts for charities—but there are also crucial indirect impacts.

Few local authorities have the power to raise business rates—this is reserved for combined authorities with directly-elected, city-wide mayors, and even then only if it is agreed by local businesses—so instead they will be looking to attract businesses in order to grow their budget. Local authorities may understandably see this as the only way to raise their own income and survive the cuts. But charities will look on nervously. The focus on attracting business risks diverting money away from support for the voluntary sector towards infrastructure and skills (although there may be opportunities here for charities working on skills and employment). Meanwhile, the whole of the charity sector will need to make the case for its economic as well as its social impact—especially its contribution to the community cohesion and social capital that underpin economic prosperity—as well as its role in directly providing local employment and being an economic player in its own right, even if this is likely to be very tough.

One consistent complaint from charities is that the unpredictability and short-term nature of local authority contracts make longer-term planning difficult. The offer of four-year financial settlements to local authorities could lead to greater stability for charities, with the potential for longer-term commissioned contracts. Above all, it represents an opportunity for charities to make their case afresh. On prevention work, for example, charities will need to make a strong argument using clear evidence for how investment now will pay off further down the line. Local authorities should demand nothing less.

As cuts continue, the Government has introduced two-year transitional funding, with £300m available for those areas—mainly, and controversially, in Conservative-run shire counties[18]—hit hardest by reductions in central grant income from the Spending Review. The premium paid to rural councils to cover the increased cost of providing services in sparsely populated areas has also increased. This is good news for charities working in those areas, but risks exacerbating inequalities across the country. Nor is it yet clear where this extra funding is coming from. Transitional funding will produce both winners and losers. In areas with weak local economies—often those with greatest social need and funding 'cold spots'—charities may find that funding becomes even tighter.

## The battle: Welfare in the crosshairs?

If the Chancellor needs to find further savings he may well look again at the welfare system. George Osborne had more money to play with in the autumn than expected—the equivalent of a £27bn windfall, borne of lower debt interest costs and favourable growth forecasts—and this allowed him to delay changes to tax credits. Even with the trend of lower debt interest costs set to continue, there may well be further cuts ahead.

With the Chancellor and Work and Pensions Minister Iain Duncan Smith now on opposite sides of the EU referendum argument, Duncan Smith may be in a weaker position to fight off attempts to raid work allowances, which he has defended from cuts repeatedly in the past. Charities should be alert to how this will affect their beneficiaries, particularly if work incentives are further diminished. We are still waiting to hear details of the Government's Work and Health Programme, and hence the likely role of the charity sector in delivering it. With the programme's focus on those furthest from employment, charities have a lot to contribute, and NPC is among many pushing to ensure that its design works for the sector.

On the housing front, rough sleeping has doubled since 2010. Rumours have emerged of new measures[19] to help those at risk of losing their home or unable to continue living in their current accommodation. At the same time, the supported housing sector is fighting for survival. It has been lobbying government over the impact of housing benefit changes announced in the Spending Review, with some success: two major changes of great concern to charities—the 1% annual reduction in social rents over the next four years, and the capping of social rents at the level of Local Housing Allowance—have been postponed for a year, to coincide with the Department for Work and Pension's review of the cost, scope and scale of the supported housing sector.

Housing Benefit is one of the biggest areas of welfare spending and could be in line for further cuts—especially as the Chancellor is reportedly now backing off[20] doing anything on pensions tax relief to bring in additional cash. Even with the delays, the Chancellor may come back to the Housing Benefit budget in an attempt to make savings. The charity sector will want to watch carefully: even apparently innocuous changes to Housing Benefit could threaten to fatally undermine the business model of some charities. And given the breadth of the supported housing sector—working with people experiencing homelessness, domestic violence survivors, people with learning difficulties, ex-offenders, people with mental health or substance abuse issues, as well as older people—the number of organisations and beneficiaries impacted could be significant.

A strong collective effort backed up by evidence of impact has contributed to this interim campaigning success. Charities across the board will need to lobby hard throughout the next year to ensure that the funding available is sufficient to meet growing needs. Again, a strong picture of collective impact[21] will be crucial to making the case.

# Conclusion

The Budget is not immune from changes to the wider environment. If the global economy tanks, even more pain will lie ahead for charities and their beneficiaries. Even avoiding this worst-case scenario, the voluntary sector can expect further pressure and upheaval over the coming years. *A balancing act* has sought to highlight some of the areas particularly vulnerable to those pressures, as well as areas where NPC believes new opportunities may emerge for charities.

Of course, the Budget will take place against a unique backdrop: the EU referendum campaign. With the Government split, David Cameron thinking of his legacy, and George Osborne thinking of his future, the stakes at this Budget are perhaps higher for them both than ever before. Political considerations will be at the forefront—which could spell good or bad news for charities and those they serve. Whatever happens, the decisions announced on 16 March could pale in comparison to the drama that may follow 23 June.

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# TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy which occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

**Increasing the impact of charities:** NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

**Increasing the impact of funders:** NPC's role is to make funders more successful too. We share the passion funders have for helping charities and changing people's lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

**Strengthening the partnership between charities and funders:** NPC's mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.

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