CHARITIES AND THE CHANCELLOR: WHAT THE 2015 SPENDING REVIEW MEANS FOR THE VOLUNTARY SECTOR

George Hoare and Patrick Murray

25 November 2015

Introduction

In the joint Spending Review and Autumn Statement 2015, the Chancellor announced his plans for public spending cuts over the next five years. Although the cuts were less than expected, the IFS director Paul Johnson has warned that this does not mark the end of austerity, adding that this Spending Review is *'one of the tightest in post-war history'.*[1] It is also important to remember that the Chancellor's plans are based on predictions by the Office of Budget Responsibility that government revenues will be substantially higher than initially expected; if these predictions prove to have been over-optimistic, then there will accordingly be less money available for public expenditure.

Two of the main headlines for charities, which NPC's chief executive Dan Corry acknowledged in his initial response to the Spending Review, were that the much-feared raid on the Big Lottery Fund did not occur, and that the equivalent of the £15m a year raised from the VAT on sanitary products will go to the underfunded domestic violence sector.[2]

A key lesson for the charity sector has also emerged from the Spending Review process. The charity sector as a whole has to get better at two political tasks: collectively organising and articulating its interests, and advocating for its beneficiaries. Take tax credits for example—the Chancellor reversed some of the changes announced in the Summer Budget. While many organisations and groups have been keen to take the political credit for this change, the wider point should be food for thought for anyone who works at or funds a charity: a well organised and well evidenced defence of a group's interests *can* influence decision-making and achieve important political goals. The use of evidence is key, as is collaboration when organising and campaigning.

In this report we look at how the charity sector as a whole will fare from some of the details of Wednesday's announcement. The structure of this report mirrors that of our earlier paper, *The Chancellor's Choice*, in looking at the Spending Review announcements on welfare, local authorities, health and education, and housing and homelessness.[3] Above all, we ask what is at stake for charities in the new economic context of increasing devolution, changes in commissioning, and outcome-based funding. If the 26% cut to the Cabinet Office budget marks 'the death of the Big Society', what comes next for charities?

---

[1] Allen, K., Mason, R. and Stewart, H., 'Spending review will still leave poor families worse off, say experts', in *Guardian*, 26 November 2015.

[2] Corry, D., 'The 2015 Spending Review: What charities need to know', *New Philanthropy Capital*, 25 November 2015.

[3] Hargrave, R., Hoare, G. and Wharton, R. (2015) *The Chancellor's Choice: Preparing the charity sector for the Spending Review*. New Philanthropy Capital.

Welfare

The headline announcement in the Spending Review was the scrapping of the proposed changes in the tax credits system which had been previously announced in the Summer Budget and proved highly controversial.

However, the family element of child tax credit will still be capped at two children. Similarly, tax credits will be replaced by Universal Credit, where the changes from the Summer Budget remain in place. These changes included a reduction in the work allowances, which is how much someone can earn before their Universal Credit is affected. So, new claimants under Universal Credit will still lose out. In fact, the Resolution Foundation has stated that, by 2020, working recipients of Universal Credit will be an average of £1,000 a year worse off than under the tax credit regime. This number could reach to £1,300 for working claimants with children.[4] Transitional protection for existing claimants moving from tax credits to Universal Credit will be put in place, but this will not protect people when changing circumstances, however slight, lead to new claims.

The key point for charities to take away from all of this is that beneficiaries' needs can be influenced by political changes, and by budgetary shifts.[5] In this case, it is important for charities whose beneficiaries will be directly affected by welfare changes (and who might be currently breathing a sigh of relief) to be braced for an increase in demand for services down the line.

Local authorities and devolution

The second area we highlighted as of particular relevance to the charity sector in our pre-Spending Review briefing was that of local authorities. The full extent of local authority cuts will become clearer when the local government settlement is announced. However, a major change is coming to local authority financing— by the end of this parliament, councils will retain all of the business rates collected in their areas. As a result of this, central government funding through the formula grant system will be phased out, which is why the Spending Review papers show a 56% reduction in government funding to councils receive. The Chancellor claimed that councils will actually see a cash rise by the end of the parliament. However the Local Government Association has stated that councils will see a 6.7% decrease, even once increases in council tax are accounted for.[6] This, coupled with the squeeze in social care—which continues despite the changes announced in the budget detailed later in this briefing—will lead to more cuts at a local level, many of which will undoubtedly be passed on to charities.

Furthermore, the changes to the way local authorities are funded means that some councils may lose out. The government has announced as part of business rate localisation that local authorities will have the power to lower rates to attract businesses to their area. Whilst many councils will welcome the extra flexibility to boost economic growth, the ability to raise rates to pay for services is only available to metro mayors, and only then if the increase is to pay for specific infrastructure investment, and is agreed by businesses.

Moreover, there is a real risk that areas with a lower tax base due to their economic performance will lose out to richer areas—mainly in London and the South East—as they may not be able raise enough revenue to compensate for the reduction in central government grant. Although the government has stated that there will be transitional funding available, charities working in areas that have weaker economies should brace themselves to deal with local authorities who have even less funding available.

[4] Whittaker, M. (2015) *O, Blessed Windfall: Fiscal Windfall and What to Do With It*. Resolution Foundation.

[5] Wharton, R., 'What will tax credit cuts mean for charities?', New Philanthropy Capital, 27 October 2015.

[6] Local Government Association (2015) *Spending Review and Autumn Statement 2015: On the Day Briefing*.

However, the government remains committed to devolution to core cities in order to grow the economy around the country; previously announced deals in the North East, Tees Valley, Sheffield, Liverpool, and the West Midlands will join those in Greater Manchester and Cornwall. These regions will receive significant new powers in a range of areas including employment and skills, and—for some—health and social care integration. All of the new agreed devolution bids contained proposals for integrating public services around people who face multiple, complex challenges, with many bids envisaging a role for the voluntary sector.

The 'Devolution Revolution' does present real opportunities for charities. It is critical that charities do not sit back and wait for councils and councillors to realise what charities are worth and what they can bring to the table. The sector needs to be knocking on doors making a clear offer of what they can do to help active citizens shape their communities. However, local authorities remain time-pressured, and it is unlikely they will have the time to meet lots of organisations all making a slightly different offer. Charities should join together across areas and make sure they have a louder collective voice. A crucial part of that louder voice must be the evidence base of collective impact across an area. Charities should look to see what they can do to build up a broader picture about the impact of their work.

Social Impact Bonds

The government also remains committed to growing social investment to fund preventative services, and announced £105m over this parliament for Social Impact Bonds (SIBs) covering homelessness, mental health, and youth unemployment. Of this £105m, £80m has been given to the Cabinet Office to support locally designed schemes. To date, SIBs have proven difficult to get going for many charities, especially where outcomes fall into a range of commissioning areas. Alongside this, the stripping out of commissioning capacity and skills in local authorities that we referenced in our pre-Spending Review paper means that many local areas may struggle to make use of this money. No further detail is available at this point, however, if this money is directed to funding outcomes for social impact bonds and building capacity in local commissioners then the overall environment for charities in the relevant fields looking to utilise social impact bonds will be improved.

The protected departments: Health and education

Health

The Chancellor announced that he will frontload the funding requested by the NHS, with £6 billion injected in the first year of the Spending Review. This will lead to a squeeze in the middle years of the parliament, and the NHS will still need to deliver £22 billion in efficiency savings by the end of the parliament.

As NPC anticipated, the ring-fencing of the NHS budget does not mean all parts of the health system are protected. In this context it is good news to see £600m going into mental health—although the Spending Review does not state whether this is an annual increase or spread over the course of the parliament—but the picture for public health is less clear. The public health grant remains ring-fenced for 2016/2017 and 2017/2018—although savings will still have to be made by councils—but after that there is a suggestion of a consultation for public health to be funded by business rate receipts, which will replace the core formula grant. This could mean that councils may have to pick up the tab for public health activities in the future. This could impact on the charity sector in a variety of ways, especially if there is less funding for public health. Charities working in this space should be wary of future changes to public health spending and keep an eye out for more detail.

The challenges in social care funding prior to the Spending Review were significant—the Health Foundation stated that the cumulative gap in social care over the course of the parliament will be £6bn.[7] Social care providers

[7] Roberts, A., Thompson, S., Charlesworth, A., Gershlick, B. and Stirling, A., (2015) *Filling the Gap: Tax and fiscal options for a sustainable UK health and social care system*. The Health Foundation.

have faced significant downward pressures on funding due to local authority funding cuts, while demand due to demographic changes has risen greatly. As a result, care staff wages are often low, so on top of the overall funding gap, social care agencies will face additional costs from the National Living Wage. The Resolution Foundation estimates that the cost of the National Living Wage to social care providers will be another £2.3bn by 2020.[8]

The Chancellor announced two main changes to alleviate the pressures in social care. The first was that councils can put a 2% levy on Council Tax specifically for social care, raising £2bn over the course of the parliament. However, areas with a lower tax base because of higher unemployment, lower wages, or higher numbers of retired people will face even greater challenges in funding care for people with social care needs through local tax rises. Secondly, the Chancellor announced that money for social care would be injected into the Better Care Fund, rising to £1.5bn in the 2019/2020 financial year. However, the Better Care Fund has been focused on reducing admissions and delayed discharges, so unless funding is channelled to other targets, much of this money could be swallowed up by ever-growing pressures in A&E.

Overall, the crisis in social care funding was not alleviated by this Spending Review. Charities who deliver social care services will see more demand due to demographic changes and potentially higher needs. More people will be unable to access statutory funding for social care as a lack of available funding for services due to stricter interpretations of eligibility criteria governing who can get publicly-funded care.

Education

Charities working with schools should be aware of two things: changes in the amount of public spending allocated to education, and changes in the distribution of this spending. The 5–16 years school budget is protected in real terms, and so will rise with inflation. However, more than half a million new pupils will enter the system over the next five years, so in per pupil terms, schools face a cut of 7%–8%. Furthermore, cutting the Education Services Grant will translate to a yearly reduction of between £90,000 (for a large secondary) and £35,000 (for a small primary) in schools' budgets, according to some early estimates.

The distribution of school funding will be determined by the National Funding Formula. Although the exact consequences are still unclear (consultation is planned for early 2016), we can be reasonably sure that inner-city schools will lose funding and rural schools will gain. It will be tough for charities working with schools that lose funding, since interventions will always be secondary for schools when compared to considerations about staffing levels.

Housing and homelessness

Housing was one of the set-pieces of the Spending Review. The Chancellor unveiled a commitment to build more homes for ownership through starter homes and shared ownership, and the introduction of five pilots for the extension of Right to Buy for housing association tenants. However, this focus on housing supply for ownership leaves charities helping people at risk of or experiencing homelessness in a difficult position. Low cost rented homes will be lost through Right to Buy, and there will be no government funding for new social housing to replace it. Charities may see more demand for advice and services as a result. Furthermore, charities may struggle to find suitable housing for beneficiaries, and people moving on from homelessness will be further restricted in their housing options, which could clog up services.

The Chancellor also announced that rents in the social sector will be capped at Local Housing Allowance rates for new claimants, including the shared accommodation rate for under 35s. These housing benefit changes could have a significant impact on charities who are registered with the Homes and Communities Agency and provide

[8] Gardiner, L. (2015) *Care to pay? Meeting the challenge of paying the National Living Wage in social care*. Resolution Foundation.

homelessness hostels, domestic violence refuges, and other forms of housing-based support services for a range of client groups such as ex-offenders and people with poor mental health The Spending Review documentation was silent on whether these supported housing services would be protected, except for a mention of Discretionary Housing Payments. This will be unlikely to cover the full costs and will be at the mercy of local authorities, some of whom may choose to use limited funding on more politically popular groups over others.

Services that see a high turnover of people—and therefore new claimants—such as homelessness charities, could be particularly at risk. The inclusion of the shared accommodation rate for under 35s—which stipulates that housing benefit will only cover the rate of a room in a shared house for single people under 35—will clearly restrict the ability of younger people to afford rents in single flats. As a result, charities could be forced to operate shared housing even where it is not appropriate for beneficiaries.

There is already an ongoing campaign by a range of charities—covering the homelessness, domestic violence, and learning disability sectors, and umbrella organisations—to gain protection for supported housing from the policy of reducing social rents by 1% annually for the next four years. Charities should prepare themselves to lobby hard to gain an exception from the housing benefit changes announced in this Spending Review. Again, the sector needs to collaborate and speak with a collective voice to ensure these changes do not extend to supported housing.

Conclusion

The Spending Review sets out the economic and political climate for the charity sector for the next five years. The details matter: although it is now clearer what the aggregate levels of funding in different policy areas are likely to be, there is much to learn in the coming weeks. The longer-term effects of the Spending Review for individual charities may well turn on how these funds are distributed. However the Spending Review impacts on charities and beneficiaries, the sector should join together and campaign based on good quality evidence.

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.

New Philanthropy Capital
185 Park Street, London SE1 9BL
020 7620 4850
info@thinkNPC.org

Registered charity No 1091450
A company limited by guarantee
Registered in England and Wales No 4244715

www.thinkNPC.org