THE CHANCELLOR'S CHOICE: PREPARING THE CHARITY SECTOR FOR THE AUTUMN SPENDING REVIEW

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On 25 November 2015 the Chancellor will unveil plans for the latest round of cuts to government budgets in the Autumn Spending Review. The charity sector will need to be alert to these changes—considering how the new economic and policy environment will affect them and, crucially, their beneficiaries. In this report we anticipate some of the changes the Spending Review will bring and the likely effects on charities.

Introduction

The Spending Review cuts will impact on charities along three main axes:

1. The delivery of public services will be altered in ways that will change the contours of the third sector as a whole.
2. Charities will face new ways of contracting and securing income, leading to changes in how they interact with the state and local authorities.
3. The needs of beneficiaries will change in a variety of interrelated ways as they interact with the state in new and complex ways.

Changes arising from the Spending Review will mean that individual charities, and the sector as a whole, will need to develop a coherent strategic response to changing conditions. This response needs to start from a clear conception of what change is needed and how it will be achieved, but it must also take into account that neither beneficiary need nor the funding environment can be taken as fixed.

In the following pages we discuss:

- how changes in welfare spend are contributing to a new environment for a wide range of charities;
- how new structures of local authority funding and new commissioning constraints will have a profound influence on the overall structure of the charity sector;
- why, despite the 'protected' status of the education and health budgets, organisations working in these sectors will be affected by the Spending Review; and
- how the cuts will affect the housing and homelessness sector.

The government's commitment to cutting public spending will cause deep and long-lasting changes to the charity sector. Charities must understand how the changes announced this November will impact on their activities, infrastructure, and beneficiaries in the coming years.

Welfare

Welfare cuts worth £12bn were announced in the government's summer budget in July 2015. Some detail on how these savings will be achieved were released earlier this year, but the rest will be determined in the Spending Review.

Policies already announced include:

- **Reducing the benefits cap from £26,000 per year to £23,000 per year**: This will affect families with more than two children and/or families paying high rents. According to the Institute for Fiscal Studies (IFS), 24,000 families who are already capped would lose another £3,000 per year (equivalent to up to 11.5% of their income). However, the IFS also notes that the policy only reduces spending by £0.1bn.[1]
- **Freezing working-age benefits and tax credits for the next two years:** This will cut welfare spending by £1.0bn. Freezing benefits this way would affect about 11 million families who would lose, on average, £100 a year.[2]
- **Removing housing benefit from 18–21 year old jobseekers:** This will have a significant effect on about 20,000 young people but would only cut £0.1bn.[3]

The government has vowed not to make any cuts to the state pension system, protecting pensioners and those nearing retirement age from the majority of welfare cuts. This means that young people and working-age, low-income households are most likely to be affected by benefit changes and face harsh cuts to their income.

Since the recent House of Lords vote to delay the changes to tax credits it is less clear where the other, large cuts to benefits will be made. As a result of the vote, the changes to tax credits will probably be introduced at a slower rate. This would allow for those losing income to have time to transition and be compensated from other welfare changes, such as the introduction of the national living wage (really just a renamed and higher national minimum wage for adults). However, this in turn raises difficult issues about how charities, particularly in the care sector, will be able to afford to pay the living wage given their tight budgets and often low pay levels for more casual staff.

One likely area for cuts will be housing benefits, which we discuss later in this paper. Other potential cuts might be made across disability, incapacity and carers benefit. Taxing disability benefits and/or abolishing or reducing the generosity of carers benefit would raise income and reduce spending but could have serious effects on some of the most vulnerable people in society—the very people the welfare system was established to help.

The Spending Review will deepen the substantial cuts to the welfare budget brought in since the Coalition government's 2010 Budget. Benefit changes naturally affect the poorest in society the most, and charities must anticipate extra demand for services. Those charities working with disabled people and carers should be ready to highlight the impact of any cuts and speak out for those who may struggle to have their voice heard. Charities working with young people who are NEET will need to consider whether their programmes will adequately support young people after the Spending Review. Finally, those working in the housing and homelessness sector, as well as those working with people facing destitution, should be ready to deal with increased demand.

Local authorities

Cuts to local authority budgets are perhaps stealthier and quieter than some of the headline cuts, but there is the possibility that, for many charities, cuts to local authority spending will be the 'silent killer' of this Spending

Review. The announcement that the Department for Communities and Local Government will take a 30% cut can only add to this suspicion—although we do not yet know how much of this will be taken via lower funding for councils. Charities need to think carefully about how changing relationships with local authorities will impact on their beneficiaries, alongside any direct funding cuts that might occur.

The hollowing out of the commissioning profession will continue and deepen with the Spending Review. Serious reductions to operational budgets in previous years mean commissioners are less likely to be specialists in the areas they oversee, and instead rely on specialists from the private and charity sectors. Working conditions have become more time-pressured, and middle-managers (who perhaps previously had the confidence and experience to innovate) are replaced by cheaper, more junior and contract staff. While there is a growing potential space for charities to take the lead and put forward co-production options, the current climate in local authorities is often risk averse and conservative.

High staff turnover and an overall reduction in staffing levels within local authorities can make it difficult for charities to know who to build relationships with. The Office for National Statistics recently calculated local government employment to be at the lowest level since they began measuring in 1999.[4] Charities will also be required to understand, and operate successfully within, a context that increasingly includes roles for local councillors in areas like public health (who may have political or personal preferences, or ‘pet’ projects).

A major challenge facing many charities—particularly in terms of impact—will be understanding how procurement and commissioning offer opportunities for influence and for using their expertise. Small charities will have to work hard to get on the radar of local politicians as soon as possible. Importantly, these changes to contracting need to be placed in the context of the long-term movement away from grant funding towards contract income.

Deepening the focus on contracts, the Spending Review will provide further incentives for ‘bulking’ contracts—offering one big contract with a single prime contractor and a number of subcontractors. Bigger charities will increasingly have to take on the cost of administering these contracts; smaller charities will have to think in terms of being sub-contractors, or bidding for bigger contracts through merging and building consortia, both of which require new funding and contract structures. The real threat remains to the mid-tier of charities who are not big enough to be prime contractors but unable to survive with a small slice of the cake.

Funding to the domestic violence sector, some of which was ring-fenced until this year, is now at further risk of serious cuts, particularly with regard to women’s refuges. While the Angelou Partnership in West London offers an example of a successful consortium, the wider trend is for local authority contracts to be awarded to larger providers rather than smaller specialist groups. The former can provide services at scale (while gaining economies of scale) and so win the larger ‘bulked’ contracts. Smaller groups—those with local knowledge and roots, specialist skills, or serving a specific beneficiary group (such as black and minority ethnic groups)—are therefore at serious disadvantage in local authority commissioning. Failing to win contracts, combined with general under-funding, has made it difficult for smaller charities in the sector to carry out the research required to establish their impact and be competitive in future outcome-based commissioning processes. Therefore, it seems necessary to speed up the move towards a collaborative approach to shared measurement and impact—like those being developed by both Safe Lives[5] and Women’s Aid[6], for instance—in order to make arguments for the value of the whole sector.

The protected budgets: Education and health

Schools and health are two areas where the government is committed to protecting budgets, but charities working in these areas will need to check the small print. The per pupil budget is protected in cash terms but schools are facing rising pension and national insurance costs; a teaching recruitment crisis, which is pushing up salaries; and national curriculum changes that require new resources. Many schools are already thinking about how to pay for this. The IFS estimates that school spending per pupil is likely, in fact, to fall by 8% in real terms between 2015 and 2020. Non-core school spending such as drama trips, work experience, counselling, and alternative provision for disaffected students is likely to be cut. Arts charities, careers charities and youth organisations that get funding from schools will face tougher negotiations as schools try to avoid losing teachers. Even charities that are not looking for funding from schools, but need teacher time to make their programmes work, will find it harder as schools tighten up their staffing budget.

In addition, the Department for Education (DfE) has to cut £450m from the non-schools budget, meaning that initiatives such as universal, free infant school meals are probably going to be dropped. Some core grants from the DfE to children and young people charities may also come under threat. Charities that work with further education colleges need to be particularly alert as their funding has not been protected. Funding to further education and sixth form fell by 14% in real terms under the last parliament and cuts are still coming. In July the National Audit Office warned that half of further education colleges were in deficit, and several have already closed. This will impact apprenticeships and adult learning as well as post-16 education, so charities working in employment will have to work out how to rearrange their services to deal with shrinking provision.

The NHS budget (£116.6bn in 2015) has been ring-fenced, with a commitment from government to increase the budget by £10bn in real terms over the next five years. Undoubtedly the NHS remains one of the public bodies with funds to spend, but the picture is not as rosy as it might seem. The NHS Chief Executive Simon Stevens, in his *Five Year Forward View*, identified a £30bn yearly gap by 2020/2021 between resources and patient needs—a result of growing demand and flat real terms funding.[7] The NHS has committed to making £22bn of efficiency savings if the government increases funding to cover the gap. But this is after the NHS has already found £20bn of savings between 2010/2011 and 2014/2015, running a deficit of £822m in the last financial year. Even with the increased budget the NHS is still in a period of austerity, especially as health care inflation is generally taken to be greater than general inflation.

Other sources of health funding do not enjoy the same protection. The public health budget (£2.79bn for 2015/2016)—which supports local action on health issues such as obesity, smoking, and substance misuse—was passed to local authorities in 2013 and was ring-fenced. Over the summer, George Osborne announced an intention to cut this budget by £200m. Meanwhile social care spending, which sits within local authority budgets, is not ring-fenced. In the last parliament, funding for adult social care fell by £4.6bn, and as a result most authorities have raised the threshold under which people qualify for social care support. Estimates from the Personal Social Services Research Unit indicate that the adult social care spend would need to rise by £2.9bn between 2015 and 2019 to meet rising demand.[8] As councils meet their statutory social care responsibilities, there is a risk that cost cutting will trump concerns about quality of provision.

The combined effect of cuts to public health and social care—both of which focus on keeping people healthy and independent—is increased pressure on the NHS. We will see knock-on effects for a wide range of health charities, particularly in mental health. Since mental health spending is not protected, resources will be taken from mental health to ease pressure on the NHS, and from preventative programmes to acute services within mental health. In turn, young people's mental health will suffer, as money is drawn away from long-term, preventative programmes such as Early Intervention in Psychosis (EIP). EIP—which helps people aged 14–35 recover from a first episode of psychosis—also has benefits in terms of employment (with one in three people under EIP care in employment, compared to one in eight under standard health care) and long-term cost savings to the NHS (estimated in a Rethink Mental Illness report at £44 million each year[9]) through the reduced use of hospital beds. The ring-fencing of the health budget in the Spending Review will therefore have unexpected consequences on health charities and the health sector in general.

Housing and homelessness

Housing benefits made up £24.3bn out of £168.1bn of welfare spending for 2014/2015, but amount to 29.7% of the welfare budget excluding ring-fenced state pensions, so cuts here seem inevitable. Housing benefits have already seen drastic changes, including the freezing of the local housing allowance. Further cuts are likely to result in an increase in cases of homelessness and poverty. Housing benefit cuts will also see greater numbers of people becoming exposed to substandard, unsafe housing as rising rents and falling benefits leave them with fewer options. Changes to housing benefit from the Spending Review will lead to increased demand for the services of housing charities—both those who provide affordable housing and, just as importantly, those who give advice and support on issues such as rogue landlords.

The government has already announced plans to remove housing benefit for jobseekers aged 18–21 but this could be extended to cover young people aged 16–25. Policies like this could have powerful effects on young peoples' life chances especially as, according to Homeless Link's *Young and Homeless 2014* report, young people are already more vulnerable to homelessness than other age groups.[10] Housing charities should prepare not just for the erosion of housing benefit but also for the need for specific groups, like young people, to receive targeted support.

Another key area to consider from the Spending Review is the effect on Housing Associations. Housing Associations currently face severe issues following the announcement in this year's budget that they will have to cut social housing rents by 1% each year from April 2016—placing many of them in extreme financial difficulty. Any further reduction in the rent they receive could threaten their financial stability and open up questions as to the meaning of 'affordable housing' in our current society.

In the homelessness sector most of the responsibilities for provision are now devolved to local or regional government. However, as little of this support is ring-fenced these services are particularly vulnerable to cuts. A provider of homelessness services interviewed by the London Housing Foundation noted that programmes keeping people off the street, such as hostels, are more likely to be prioritised over other homelessness services.[11] This suggests projects aiming to improve the well-being, education, or life chances of homeless people will be particularly hard hit. Charities in the housing and homelessness sector will have to work in an increasingly challenging environment following the Spending Review. In order to provide maximum impact for their beneficiaries they will need to carefully prioritise how best to spend their resources and keep track of the rapidly changing environment.

Conclusions

What, then, is at stake for charities in the Spending Review? Cuts to civil society matter, not just because of the amount of money in the sector or because of the numbers employed by charities and social enterprises, but because of the third sector's independence from the public and private sectors, and its role supporting those most in need. It also matters because of this new conception of public services we are witnessing, one where the third sector—rather than the state—helps the most vulnerable in society. At the centre of the Spending Review, though, there is a contradiction. This is the contradiction between the Conservative manifesto commitment to building the Big Society—through charity, volunteering and empowering the sector—and the goal of the Spending Review to cut public spending, regardless of the effect on the third sector and the people it supports.

The Spending Review brings into focus some other big questions for the charity sector. Are new commissioning models needed to allow the sector to move into areas traditionally occupied by the government? Has the sector been effective enough in communicating its interests prior to the Spending Review? If not, is there a role for collaborative work that looks to analyse beneficiary need at a regional or national level? Finally, can new data and digital technologies offer solutions to these questions? At NPC, we hope to help address these questions in the coming months as the sector adjusts to the changes the autumn Spending Review will bring.

References

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