Autumn Statement 2018 - NAVCA's Analysis

1st November 2018

Context

Monday's Autumn Statement marked another uneventful Budget with little significant direct impact on the VCSE sector. The chancellor made only passing reference to the VCSE sector in the Budget, and few of the spending announcements outlined will provide significant benefit to our sector.

It is particularly noticeable that the Budget does not include any pledges around sustainable and strategic funding for the VCSE sector, despite the fundamental role that VCSE organisations continue to play in supporting the delivery of key public services.

The Budget also provides little in the way of strategic links to the recently launched Civil Society Strategy and Loneliness Strategy, leaving us un the dark around if, and exactly how the key pledges in these (such as funding the training of 3,500 Community Organisers by 2020 or addressing complex social issues such as rough sleeping, digital inclusion and healthy ageing) will be met.

One of the most disappointing elements of the Autumn Statement however, has been that government has ignored key asks by NAVCA and other national representative VCSE bodies around the value of VCSE organisations and the urgent need to fund the sector in a more sustainable way for the future. Ahead of the Autumn Statement, NAVCA and a host of others (including NCVO, ACEVO, Lloyds Bank Charitable Foundation, the Institute of Fundraising and Small Charities Coalition) formed a high profile sector group and jointly wrote to the chancellor setting out a compelling case that the objectives of the Civil Society Strategy should be tied into the Autumn Statement, and that the Budget should include opportunities to put dormant assets and the UK Prosperity Fund to more effective use to support the VCSE sector and local communities. We, and our partners across the sector are extremely disappointed that government has missed an opportunity to pick up on those key strategic asks.

Despite these significant shortfalls the Autumn Statement does hold some relevance to the VCSE sector. The sections below provide a brief analysis of some of the key spending pledges outlined in the Budget, and the possible implications of these for VCSE organisations.

The Economic Outlook

The Office for Budget Responsibility (OBR) is the UK's independent "fiscal watchdog" and provides analysis and forecasting of the national economy and public finances. OBR forecasts to accompany the Budget set out the following:

- **Growth**: Primarily thanks to the harsh winter conditions at the start of the year, the UK economy is growing at a slower than expected rate and the OBR has downgraded its

last forecast on economic growth for this year from 1.5% to 1.3%. Going forward, OBR forecasts that the UK will see an increase in predicted economic growth over the next three financial years. This is forecast at 1.6% in 2019/20 and 1.4% in 2020/21. The OBR expects growth is to further increase by 1.5% by 2022/23.

- **Labour Market**: The number of people in work currently stands at 32.3m and is set to rise to 32.7m in 2019/20. Employment is forecast to further increase to 33.1m by the 2022/23 financial year. UK unemployment is at its lowest level since the 1970s, however fluctuations in unemployment have been predicted over the next three years: The number of people out of work is initially predicted to fall to 3.7% of the working population in 2019/20, but will increase slightly to 3.9% by 2022/23.
- **Earnings/Cost of Living:** With reference to inflation, the Consumer Price Index (CPI - which is used as a measure of the cost of the goods and services bought by typical consumers and as a cost of living indicator), is predicted to fall from 2.6% in 2018/19 to 2.5% in 2019/20, and 2% in 2020/21. These levels are in line with targets set by the Bank of England.
- **Public Sector Net Borrowing (PSNB):** OBR forecasts predict that the PSNB will decrease from £37.1bn in 2018/19 to £21.4bn by 2022/23. The overall rate at which the national deficit is decreasing has provided some scope to increase public spending, as seen in the Budget announcements below.

It's important to note that the OBR's predictions are based on the UK securing a Brexit deal from the EU. Should this not happen, the figures will need to be revised leading to a markedly different economic outlook for the UK

Brexit

It's clear that Brexit overshadows other important areas of the Budget:

- The Chancellor announced that £4.2bn has already been spent on Brexit preparations, and rough estimates by NCVO set this at **the equivalent to the total income of the UK's 136,000 smallest charities for almost two years**.

Looking closely at the promises the chancellor made in the Autumn Statement, the spending commitments outlined were caveated against a deal being made between the UK and the EU. A no-deal scenario would impact on future forecasts for the UK's economic performance and would see the Spring Statement become a "full fiscal event"

Key Spending Pledges

The chancellor announced that the Budget includes a "*new path for public spending*". Earlier this year the government pledged to allocate funding of £20.5bn to the NHS, and the forthcoming 2019 Spending Review will set out further spending priorities across government departments. Ahead of this however, the following announcements were made:

Mental Health: Funding for mental health services will grow as a share of the NHS' overall Budget, and will see investment of up to £250m by 2023/24. This investment is intended to cover the cost of a suite of mental health crisis services including:

- A 24/7 crisis helpline for mental health (via NHS 111)
- Children and young people's crisis teams across the country;

- Comprehensive mental health support in every major A&E department and more mental health specialist ambulances;
- Increased community services such as crisis cafes.
- Schools-based mental health support teams and specialist crisis teams for young people across the UK.
- Support for up to 55,000 people with severe mental illness to find and retain employment by expanding access to the Individual Placement Support programme

VCSE organisations continue to play an integral role in NHS England's strategic agenda on prevention, community-based care and integrated care. Mental health is a key area in which collaborative working between the NHS and VCSE sector can be seen in practice across the country, with VCSE organisations delivering vital support at community level. The announcement of ongoing, additional funding to support community-based mental health services is obviously welcome and will be important in supporting VCSE organisations to design and deliver tailored support in the localities in which they're based. We would also hope that the availability of new funding for cross-sector delivery with the VCSE sector will lead to more community programmes being more sustainably funded, allowing for longer term delivery and impact.

Local Councils & Social Care: Ahead of the forthcoming Adult Social Care Green Paper, Government has pledged to:

- Provide an additional £240m in adult social care funding in 2018/19 and a further £240m in 2019/20, with the funding intended to ease winter pressures on the NHS and help people transition from hospital to care setting appropriate for them.
- An additional £55 million in the remainder of the 2018/19 financial year for the Disabled Facilities Grant to provide home aids and adaptations for disabled children and adults on low incomes.
- Make £410m available over the next financial year (2019/20), for both adults' and children's social care: Government outlines that local authorities *"should use this funding to ensure that adult social care pressures do not create additional demand on the NHS"* and *"can also use it to improve their social care offer for older people, people with disabilities and children"*.
- Available funding of £84 million over 5 years earmarked for improvements to children's' social care for up to 20 local authorities with high numbers of children in care.

Figures by the LGA outline that an additional £3.9 billion is needed to fill the overall funding gap for adult social care, and a further £1.1 billion is needed to fill gaps in children's services. This is a clear signal that whilst the move to provide additional funding for local authority social care is welcome, these measures do not go anywhere near far enough. The current shortfall continues to push the UK's social care system into crisis and potentially endanger some of the most vulnerable people in our local communities. Alongside local authorities, it is VCSE organisations on the front-line who are having to bear the pressures of meeting increasing demand with severely constrained resources.

Universal Credit: Despite acknowledging problems with its roll-out and administration, the negative impact upon Universal Credit (UC) claimants was ignored, with the Chancellor announcing the Universal Credit is *"here to stay"*. Key measures announced around UC:

- Over the next 5 years the Treasury will allocate £1bn to the Department for Work & Pensions to help ease the transition to UC as full national roll-out takes place in 2019
- In-work allowances (the amount that claimants can earn before Universal Credit begins to be withdrawn) will be increased by £1,000 a year. This measure equates to £1.7bn annually, and is intended to support 2.4 million working families and people with disabilities by £630 per year.
- Support will also be incorporated for claimants repaying debts with Government reducing the maximum rate at which deductions can be made from Universal Credit from 40% to 30%.

The allocation of funding to support the roll-out of UC and increase to in-work allowances are, on the surface, positive steps; however, it's likely that they are not comprehensive enough to ensure that UC does not leave people worse off. Thinking about the spirit of collaboration that was outlined in the civil society strategy, Government has missed a potential opportunity to collaborate with the VCSE sector which already provides valuable support to UC claimants, and whose valuable knowledge and experience could help to re-shape and improve the system.

National Living Wage & National Minimum Wage: The government has set a target for the NLW to reach 60% of median earnings by 2020 (subject to sustained economic growth). Announcements in the Budget include

- Increasing the NLW by 4.9% from £7.83 to £8.21 from April 2019, which will benefit around 2.4 million workers
- Accepting recent recommendations by the Low Pay Commission to increase NMW rates from April 2019 as follows:
    - Increasing the rate for 21 to 24 year olds by 4.3% from £7.38 to £7.70 per hour
    - Increasing the rate for 18 to 20 year olds by 4.2% from £5.90 to £6.15 per hour
    - increasing the rate for 16 to 17 year olds by 3.6% from £4.20 to £4.35 per hour
    - increasing the rate for apprentices by 5.4% from £3.70 to £3.90 per hour

The proposed plans to raise the NLW and NMW present the VCSE sector with a double-edged sword. Whilst they are welcome, they could also have a significant impact on small charities who may struggle to cover the cost of increased wage bills.

Affordable Credit and Financial Inclusion: Measures around social lending and financial inclusion announced in the Budget include:

- Use of dormant assets funding to promote financial inclusion. This will initially see the deployment of £55 million primarily to address the problem of access to affordable credit.
- A pledge to support the credit unions and support people to increase personal financial resilience by launching a pilot of a new prize-linked saving scheme for credit unions.

- Plans for government to work with leading debt charities and the banking industry to explore feasibility, build and design a pilot for a no-interest loans scheme in early 2019 were also set out.

We welcome the announcements on affordable credit and financial inclusion, and that government will support credit unions and work with debt charities along with the banking industry. The government promised in the Civil Society Strategy that it would allocate £55 million of funding sourced from dormant accounts to "address the problem of access to affordable credit and alternatives", and it is positive to see this pledge being followed-up.

Supporting Business & Enterprise: Measures to support business and enterprise include:

- Changes to business rate relief to reflect the recent revaluation in rateable value of business premises. With this in mind, the government have promised that retail properties with a rateable value below £51,000 will benefit from a cut of 1/3 in business rates. This is intended to result in a saving of up to £8,000 for up to 90% of independent businesses. **This measure could have a potentially positive impact on VCSE organisations (those with a trading arm) who will benefit from the reduction, however an ideal scenario would be for VCSE properties liable for business rates to be granted full dicresionary relief. At the same time, however, it may have a long term impact on the availability of high street premises for charities, if small independent businesses are better able to afford commercial rents.**
- A total of £675 million earmarked to help rejuvenate and transform high streets. **Part of this funding is aimed at increasing footfall and making high streets more attractive places to shop, which could be a positive measure for charity shops – but again, could mean that pressure from landlords and from private sector businesses increases to squeeze charity shops off the high street, particularly those of small local charities that may be less well equipped to compete in a more attractive environment.**

Tax: Measures to implement a "*fair and sustainable*" tax system include:

- The VAT threshold will remain at the current level of £85,000 until April 2022.
- In a welcome development for the VCSE sector, the upper limit for at which charities can trade without incurring a tax liability will be increased from £5,000 to £8,000 where turnover is under £20,000, and from £50,000 to £80,000 where turnover exceeds £200,000. This almost aligns charity tax liability with VAT.
- In April 2019, the Personal Allowance threshold will be raised to £12,500: This will be introduced a year earlier than planned, and will remain at the same level in 2020-21, going on in future to increase in line with the consumer price index (CPI). The Higher Rate Threshold will rise to £50,000 by April 2019 – also a year earlier than previously announced. **At first sight, increasing the Personal Allowance threshold appears to be positive, however increasing the Higher Rate Threshold is likely to have more benefit for middle and higher income earners.**
- From April 2020 the rules set out for the public sector on IR35 (employment of contractors and off-payroll working) will apply to large and medium size businesses. **For the VCSE sector, there may be some impact on organisations at the higher end of**

the turnover spectrum who work with contractors or with associates and consultants via personal service companies.

- Fuel duty will be frozen for the ninth consecutive year**. Whilst this is not an environmentally friendly pledge, freezing fuel duty will be an important economic measure for many VCSE organisations, including those based in rural areas, and those who run outreach and community transport services.**
- Duty rates for beer, cider and spirits will be also frozen. **This appears to be a populist measure and is to some extent at odds with the current emphasis on the prevention agenda in health policy.**
- From 2020 the government will introduce a Digital Services Tax (DST) to ensure that large multinational tech businesses make a fair contribution to the economy. Under this proposal the government will introduce a new 2% tax on the revenues of large digital businesses to ensure that the amount of tax they pay is reflective of the value they derive from their UK customers/users. **The Chancellor alluded to the DST being used to "support vital public services", and whilst there is no specific mention here of VCSE organisations, there is an implication that better funded public services could have a potential knock-on impact of unlocking more local statutory funding for VCSE organisations. This would of course depend on whether DST is set at an appropriate level, the mechanisms put in place to effectively collect it, and how government plans to redistribute its proceeds into public services.**

Charity Specific: As mentioned above, the VCSE sector itself barely figured in the Autumn Statement. A few, very specific segments within the VCSE sector will benefit from measures announced, but these are very limited and include:

- An allocation of £1.7 million for the Holocaust commemoration and education fund, earmarked for educational projects in schools to mark the upcoming 75th anniversary of the liberation of the Bergen-Belsen concentration camps (to be designed/delivered by a charitable organisation).
- A commitment of £10 million to support veterans with mental health needs
- Up to £8 million to help with the cost of repairs and alterations to village halls, Miner's welfare facilities and Armed Forces organisation's facilities
- £10 million of capital funding for air ambulances in England
- Providing £15m to charities to distribute surplus food and help reduce annual food waste which currently stands at around 250 million meals per year.

A handful of measures designed to reduce administrative burdens on charities were also announced: These will come into force from April 2019.

- As highlighted above, increasing the upper limit for trading that charities can carry out without incurring a tax liability from £5,000 to £8,000 where turnover is under £20,000, and from £50,000 to £80,000 where turnover exceeds £200,000
- Charity shops using the Retail Gift Aid scheme will only need to send letters to donors every three years when their goods raise less than £20 a year, rather than every tax year. **This change will help charities to save considerably on administration costs**.

- Increasing the individual donation limit under the Gift Aid Small Donation Scheme to £30, in line with contactless payments. **This increase is clearly welcome and will help VCSE organisations that trade to raise additional funds.**

Our Conclusions: This Budget shows a general lack of regard for the value of the small charities and voluntary organisations. It ignores that a healthy, sustainable and well supported VCSE sector is central to building strong communities, effective public services, a thriving national economy. NAVCA will continue to work hard, along with other key players in the sector, to put pressure on government to recognise the value of VCSE organisations and to support them accordingly.

Useful Links

HM Treasury Autumn Budget 2018

Office for Budget Responsibility

Moving the conversation on: LGA Autumn Budget Submission to HM Treasury

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