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THE 2010 SPENDING REVIEW – IMPLICATIONS FOR CHARITIES

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20 October 2010

SPENDING REVIEW - INTRODUCTION

Governments have regularly conducted Spending Reviews in the autumn with implications for public sector spending from the next few years from the following April. Often the publicity is relatively modest. Today's announcements are, in a sense, no different to that process except in terms of the scale of the changes announced and the associated publicity.

However, the Review does not mean the end of the world as we know it, and the Chancellor indicated that total public spending is only returning to 2008 levels in real terms. Moreover most cuts will be phased in over several years, and total Government spending will still continue to grow each year - the growth will simply be less than inflation. The headlines before the Review, where 25% cuts were mentioned, only apply in a few areas. Within the detail there are several possible opportunities for the charity sector.

But we are clearly entering a time of major change for charities – not just for those which receive public sector funding. This newsletter looks at these issues from several angles.

A. ISSUES FOR CHARITIES WITH NO PUBLIC SECTOR FUNDING

It is important to remember that these announcements were a Spending Review - not a normal Budget with tax changes etc.

No changes were announced which would directly affect charities as a whole: for example there are no changes to gift aid or to charity VAT concessions. Nothing was announced which alters charity law - though we are concerned at the impact on the Charity Commission and possible consequences (see I. below).

Whilst around a third of all income to the charity sector comes from public sector sources, two thirds does not! Charities which rely mainly on grants and donations from individuals and trusts, or on fees and admissions paid by individuals, may suffer some indirect effects, but are unlikely to be affected directly.

B. IMPLICATIONS FOR DONORS

No changes were announced which would directly affect the rules and concessions on charitable giving.

However, it is clear that significant numbers of public sector workers will lose their jobs in the coming years, and if these people are amongst your donors and supporters, their charitable giving is likely to be much reduced unless they find new jobs rapidly. For those public sector workers who do not lose their jobs, there are likely to be pay freezes and increased pension contributions, increased travel-to-work costs as rail fares rise, etc etc. And those at the very top in the public sector will face large pay cuts.

So, for any charity which has a lot of public sector workers amongst its donors, donations may well reduce.

However, there are new opportunities for donors. The announcement that parents who pay higher rate tax will lose child benefit creates a great opportunity for those just into the higher rate band to give MORE to charity. It has always been the case that people on higher rate tax get an extra tax rebate on donations under gift aid. But if gift aid donations bring down their taxable income so it stays within the basic rate band, they could keep the child benefit they would otherwise lose!

The precise thresholds will depend on the wording of the legislation, but this could be very attractive for those with earnings around £44,000 to £50,000 - a common salary band for many staff in senior management roles.

- *Example:* Jane earns £45,000 and she has two children for whom she gets child benefit worth £33.70/week (£1752/year). She currently gives £50/month to charities under gift aid (£600/year net or £750 gross) so her taxable income is £44,250. She is thus a higher rate tax payer and would lose all child benefit under the new rules. (This £600 of net gifts only costs her £450 after allowing for higher rate relief - so it is already very tax effective.) But if she increased her charitable giving to £100/mth net (£1500/year gross) her taxable income would drop to £43,500 which is within the basic rate band. So she and her family get to keep £1752 (tax free) of child benefit in return for extra charitable gifts which cost her little more than £450 after tax. Moreover, she is not just saving money herself - the charities she supports get an EXTRA £750 from her additional gift after reclaiming tax under gift aid.

(Note: For simplicity, this example assumes she has no other tax allowances such as pensions, and if she is married it assumes her spouse is not also a higher rate taxpayer. The details for unmarried couples are not yet clear.)

C. IMPACT ON BENEFICIARIES

For charities which directly support particular groups of individuals, the CSR announcements could mean much greater demands for the charity's work.

Undoubtedly the welfare cuts will lead to some significant cases of hardship, and hence more demand for charities which are prepared to make grants directly to individuals.

The huge changes to the benefits system will no doubt create massive need for new benefits advice. And those who lose jobs in the public sector (or in voluntary organisations funded by the public sector) will clearly be looking to appropriate charities to support them through the changes they face.

We would suggest that charities of all kinds (including churches) should be alert for individuals in their communities who are affected by the changes.

But on the converse side, if the changes lead to highly experienced public sector workers taking redundancies or early retirement this could lead to a valuable new source of charity volunteers!

D. GOVERNMENT SECTORS WITH INCREASED SPENDING

Not all areas of Government spending are being cut. The Chancellor confirmed that NHS spending will continue to rise above inflation as previously promised. He also announced increased spending (as a proportion of income) on international development, which should bring the UK's development spending up to 0.7% of Gross National Income from 2013.

Many charities have long campaigned for increased in Government spending on international development and with increasing amounts of DFID spending channelled through charities in order to reach the communities intended, this looks like encouraging news for international development charities.

However, whilst the commitment to health spending may look attractive for charities in the medical field, the huge NHS changes and the abolition of PCTs are creating a complete new playing field for charities seeking to secure public sector funding for health-related services. Moreover, health expenditure will continue to be squeezed as the increased NHS budgets are not sufficient to keep up with increased demand from an aging population.

There will clearly be big cuts to some voluntary sector projects in the health sector. But, as in other areas there could be new opportunities: the Government seems increasingly keen on using voluntary sector providers in healthcare (mental health was specifically mentioned in the Chancellor's speech). The Chancellor seems to think there are many areas where voluntary sector providers could deliver services more cheaply than the NHS.

E. PUBLIC SPENDING CUTS THAT WILL HIT CHARITIES BADLY

Every Government department other than Health and International Development faces significant cuts. Whether locally or nationally, many charities which currently receive significant public sector funding will either see funding not renewed, or renewed at lower levels than at present. Charities will undoubtedly have to make staff redundant and some charities will close.

These issues will apply UK-wide as the reduced funding to the Governments in Scotland, Wales and Northern Ireland feed through.

The cuts will be particularly serious in England for charities funded through local government, as local authorities will face cuts of 7% per year for four years - i.e. around 28% in total. However, the Chancellor's announcement that he will end ring fencing of most local government funding (equivalent to restricted funds in a charity) will give local authorities more flexibility to spend funds where they feel the need is greatest. We feel this could, however, be doubly bad news for the VCS, as many VCS projects are funded through ring fenced budgets - which could now be diverted to support the authorities' core activities.

However, in some cases there may be scope to challenge cuts through resort to law. If a public sector body threatens to withdraw funding without going through proper procedures, it is possible to institute a "judicial review" in the courts, to consider if the authority acted illegally. Sometimes even the threat of seeking a judicial review may be enough to get them

to think again if decisions have not been taken properly. Even just making freedom of information (FOI) requests can be very useful if making sure you have access to all the relevant documents.

- *Note on judicial reviews etc.* We have some knowledge of these issues, and close contacts with lawyers specialising in these areas, so do get in touch if you need help.
- *Note on closing a charity:* Whilst it is tragic to see a worthwhile charity close, if this is unavoidable, there are many practical and legal/accounting issues to consider for an orderly wind-down. This is an area where The Kubernesis Partnership LLP may be able to help - we are already working with a couple of organisations on such issues. We do not seek to benefit from charities in demise, but a small amount of advice at the right time may actually save funds and protect the interests of your users in the longer term. This is especially important as charities rarely close with no funds at all, and any funds in hand must be merged with another charity.

F. PUBLIC FUNDING IN OTHER FIELDS

Police spending and justice spending are to fall by 14% and 23% respectively in real terms over the four years of the review. Defence sees an 8% cut over the period. Cuts in culture, heritage and sport are being limited to 15% - though with protection for the 2012 Olympics and Paralympics - so cuts could be larger elsewhere. Free entry to museums and galleries will continue. Some complex changes to education funding were announced, but overall the Chancellor said the Education budget would only fall by 1% a year.

Whilst serious, some of these cuts are perhaps not quite as bad as feared, but charities in these areas will clearly suffer. However, the Government says it is keen to see MORE VCS provision where it can lead to better use of funds - so we may see some major new projects offered for tendering by the third sector.

G. OPPORTUNITIES FOR CHARITIES

Despite all the apparent gloom, we see two significant opportunities for charities.

- (a) In the first place, the Government has made clear that *it still wants charities to play a significant part in delivery of public services* - possibly even more so than at present.

But many of the opportunities will emerge in new areas, and may well be based on much leaner services than at present. Those charities which are able to adapt and offer what Government wants may do well. (But those just seeking funding to do what they have always done are likely to come away from the table with little). This will demand great creativity in reinventing services or developing new ones - but probably with much leaner funding than in the past.

The Government indicates that there will be much more payment by results rather than block grants or contracts. So all the principles of full cost recovery may start to disappear with the public sector no longer interested in the costs of services. Instead, those charities which can deliver specific outcomes such as reductions in reoffending may be able to attract good prices for their work - but the risks of taking funding on this basis are enormous: charities will have to commit significant resources to run services for which they will only receive payment if the work is successful.

- (b) We believe big gaps will, however, emerge where there are people in need and little or no state support. But we hope that no one will stand by and let people suffer.

Those concerned about these issues will no doubt wish to launch NEW charities to address these gaps. They will have to work hard to raise funds from non-statutory sources, and probably will be carrying out work with extensive use of volunteers and only a few paid staff - in the early traditions of the voluntary sector. But the challenges of raising funds to do work which people previously expected the state to fund will be enormous: great skill will be needed to get the fundraising messages across.

H. NEW VCS FUNDING ANNOUNCED

The Treasury's CSR report says "The reforms underpinning the Spending Review represent a significant increase in the opportunities and funding available to the voluntary and community sector (VCS) in the medium and longer term. However, to help VCS organisations prepare for these opportunities, the Spending Review makes provision for a Transition Fund to support VCS organisations in the short term."

Overall the Cabinet Office budget (which includes the Office for Civil Society) will see huge reductions, but the Chancellor indicated that he is providing additional allocations to support for the Big Society, to establish community organisers and to launch the pilots for the National Citizen Service. These are all key areas for the VCS.

He also said "In recognition of the challenges faced by the voluntary and community sector, I am establishing a one year £100 million transition fund to help those facing real hardship". This is a significant boost in 2011/12 to help charities that deliver public services, but it is a one year scheme, and competition for funding will be enormous.

The position of voluntary sector infrastructure organisations - i.e. charities which support other organisations in the sector – is particularly complex. The ChangeUp programme is being ended and CapacityBuilders closed. Likewise much support to the sector's infrastructure through the Regional Development Agencies will end. Many organisations whose main income is from these sources may well close.

However, the Government does not wish to see all such support disappear. An "Office for Civil Society consultation on improving support for frontline civil society organisations" has been launched by the Cabinet Office entitled "Supporting a Stronger Civil Society". It is mainly a survey of existing infrastructure support, but comments are invited on the future provision needed.

I. CHARITY REGULATION AND THE CHARITY COMMISSION

Although the CSR did not announce any changes to charity regulation, the Charity Commission has not fared well in the Review. Its income has been reduced substantially over the last few years and is now set to fall much further from £29m this year to £21m in 2014/15. Adding the effects on inflation this is a cut of at least a third.

Dame Suzy Leather, Chair of the Charity Commission said today, "Business as usual is simply not an option" (in the face of such cuts) and hinted that changes to charity law would be needed.

We feel the largely helpful approach which most charities experience from the Commission could change quite significantly, and we suspect that many more concerns about charities in England and Wales reported to the Commission may go uninvestigated.

It does not follow that OSCR and the Charity Commission for Northern Ireland will suffer the same fate, as the devolved administrations have in recent years put a higher priority on charity regulation. But even before the CSR, OSCR was already facing some reductions in future funding, and having to postpone new investments in additional online facilities.

OVERALL

These are challenging times - the future is dire for some charities, but the changes offer opportunities for others. The next few years will clearly mean massive changes for the charity sector. Some well known charities may disappear completely, but we also anticipate that new charities will be formed. Patterns of charitable giving could change substantially, and we may gradually see a very different approach to charity regulation. But we are convinced that the need for effective well-run charities will remain as strong as ever.

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Note: This was a huge announcement and we are only highlighting a few areas. On specific areas of Government funding, we are only offering the most general comments: those who run charities in fields such as education and health and crime will of course need much more detail than offered here.

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