Charity Finance Group
Policy Briefing
Budget 2016

16 March 2016

This briefing provides a summary of the highlights of the Budget 2016, including those of particular interest to the charity sector. We have also asked some of our corporate subscribers to put forward their initial responses to measures announced in the budget which are in the relevant sections.

Key messages:

- Mandatory charitable business rates relief protected.
- No additional support for charities to deal with National Living Wages and the Apprenticeship Levy.
- More targeted give aways for military and women's charities.

Useful links:

- CFG's Budget 2016 Live Blog
- CFG's Early analysis of the 2016 Budget
- Office for Budget Responsibility Economic and Fiscal Outlook – March 2016
- Budget 2016 – The Red Book

Overview

Charities came into this Budget with a number of concerns weighing on their minds, particularly around business rates. Fortunately, the government has listened to the sector and protected mandatory charitable business rate relief. However, the Budget is also a massive missed opportunity. Like the wider economy, charities are facing a dangerous cocktail of cost pressures such as the National Living Wage and Apprenticeships Levy as well as disappearing grants and more challenging contracting. Yet cuts for private businesses were not met with a similar package of support for charities. Small businesses play a vital role in communities, but the Chancellor needs to recognise the role that charities play – providing support for the marginalised, vulnerable and voiceless.

The Government needs to adopt a more strategic approach when it comes to investing in the charity sector and recognise that supporting our sector is one of the best ways for it to achieve positive social change.

The current climate

The charity sector is operating in a tough environment. On top of the recent media scrutiny of high profile charities, the funding environment continues to be volatile and with increasing core costs from the introduction of the National Living Wage, Apprenticeship Levy and potentially new charges to fund the Charity Commission.

It is expected by 2018/19 that the sector will have to find £4.6bn in funding to maintain its spending power. Charities have seen a fall of £1.7bn in income from government in the last Parliament.

If you would like to discuss any of the issues arising from the 2016 Budget, please contact our Policy and Public Affairs Officer via email heather.mcloughlin@cfg.org.uk or on 02078715476.

Charities

There were few major charity-specific announcements but here are the ones that we identified:

- As announced before the Budget, **the Chancellor has recommitted to providing central funding to tackle homelessness**. In this Budget the Chancellor has announced:
    - £100 million will provide at least 2,000 places for 'second stage' accommodation for rough sleepers and domestic abuse victims
    - Investment in £10 million for innovative ways to prevent and reduce rough sleeping, this will be particularly focused on London
    - Double the funding from £5 million to £10 million for Rough Sleeping Social Impact Bond. CFG still has concerns as SIBs often take a long time to establish, and results are often seen long-term.
- **The government has allocated £45 million from banking fines** over the next Parliament to be given to military charities, hospital charities and other good causes predominately associated with health.
- **The Chancellor has committed £12 million from the controversial Tampon Tax** in funding to women's charities.
    - Two grant-making partners; Comic Relief will receive £4 million and the Rosa Fund for Women will receive £2.2 million.
- **The International Aid Budget will be protected at 0.7% of GDP** but as it's adjusted in line with economic forecasts it will see a real terms cut of £650m in 2019/20.
- The **Employment Allowance will be increased for charities to £3,000 from April 2016.**
- The introduction of a levy on the producers and importers of soft drinks that contain added sugar will raise £520 million in the first year. This is good news for health charities who have long engaged in campaigning for this change.

- The Chancellor announced that **£60 million from extra stamp duty on second homes will be given to support Community Land Trusts**. This will provide a much needed boost for regeneration schemes in deprived areas.
- **The Government are considering limiting the range of benefits that attract income tax and NICs advantages when they are provided as part of salary sacrifice schemes**. If this is scrapped charities with paid staff and that use salary sacrifice will see an increase in their NIC bill.

> "The concerns regarding a major overhaul of the pensions taxation system have been kicked down the track and avoided (for now). In its place we have the introduction of the new Lifetime ISA from April 2017.
>
> I can see some younger employees choosing to opt-out of existing pension arrangements in order to help fund a Lifetime ISA, potentially losing their employer's pension contribution, and undermining the objectives of automatic enrolment. In the Budget report, the Government does state its intention that pension saving, childcare and health-related benefits such as Cycle to Work should continue to benefit from income tax and NICs relief when provided through salary sacrifice arrangements so this is welcome to employers providing such arrangements. A further benefit is the increase in the tax and NI relief for employer-arranged pension advice which is rising from £150 to £500"
>
> **Alan Wilkes, Actuary and Principal at Punter Southall**

- **Changes to Lump Sum Death Benefits**: the government will be "removing unnecessary legislation relating to charity lump sum death benefits". This will not present an additional cost to charities as life insurance and pensions are already tax free.
- The Apprenticeship Levy will be introduced by April 2017, with no clear concessions for charities announced in the 2016 Budget.
    - The Levy is likely to cost larger charities between £60-70m.
    - The Budget introduced a 10% top up on employer's monthly payments into the scheme.
    - Further details of how the scheme will work will be announced in April.
- There are no concessions for helping charities afford the new National Living Wage from April 2016, which will cost the sector £500 million by 2020.
    - That figure excludes National Insurance and pensions contributions.
    - Currently half the sector's workforce is in social work or residential services which are typically low paid.
- For charities in the cultural sector there were small gains, with tax breaks for museums and galleries who create new exhibitions to be introduced from 1st April 2017.
    - Museums and galleries will also benefit from a broadening of their eligibility criteria for VAT rebate.

"It is disappointing that there was so little response to concerns raised by the sector on previous announcements such as the apprenticeship levy and how it will affect the sector."

Katharine Arthur, Head of Tax, haysmacintyre

"Given the importance and contribution that charities, both small and large, make to the UK economy and society as a whole, there was a distinct lack of announcements to support them in George Osborne's eighth Budget as Chancellor today. He seemed to focus heavily on businesses and individuals, with hardly a mention for the voluntary sector.

That said, he did announce one measure that will hope to benefit some not-for-profit organisations. The 5 per cent VAT on women's sanitary products, dubbed the 'Tampon Tax', which will amount to £12m will be allocated to women's charities across the UK, from 'Breast Cancer Care to the White Ribbon Campaign'. Additionally, there will be extra funding for initiatives to combat homelessness and money from LIBOR fines will be used to support children's hospital services.

Despite these few announcements, we are disappointed that the charity and voluntary sector did not receive more of the Chancellor's attention and hope that future plans recognise the sector's importance."

Subarna Banerjee, National head of charity and not-for-profit, UHY Hacker Young

"Today's Budget contained good news for a number of charities who received positive funding announcements, as well as measures targeted at preventing homelessness. The government has said it wants to remove unnecessary legislation relating to charity lump sum death benefits from the pensions rulebook."

Standard Life Wealth's Charities Specialist, Julie Hutchison

Another unexciting budget for charities with little recognition for the sector as a whole - although there is a continued carve out of sub sectors to gain additional reliefs, such as more museums and galleries to be able to access VAT reliefs. Guess every little helps in recognising the VAT burden on charities and look forward to more sub sectors gaining recognition in future budgets.

Helena Wilkinson, Head of Charities and NFP, Partner, Price Bailey

"The arts sector has been hit in recent years with the Arts Council cuts being passed on to the charities it funds. As part of the Budget, the Chancellor announced that museums would receive tax credits for new exhibitions. There are a large number of small museums in the sector, and this news could make a big difference to them, helping to realise their plans for new exhibits sooner than they may have hoped, without making as large a dent in their unrestricted reserves as originally anticipated."

Tracey Moore, Charities Associate Director, Moore Stephens LLP

The economy

To accompany the Budget, the Office for Budget Responsibility (OBR) also publishes forecasts for the economy and public finances, updated to reflect the budget policy measures. The OBR uses the forecasts to judge whether the Government remains on course to meet its medium-term fiscal objectives.

- **Growth** has been revised down by 0.4% in 2016 to 2%. Growth has also been revised down for the subsequent years. Growth will be 2.2% in 2017, 2.1% in 2018, 2.1% in 2019 and 2.1% in 2020.
- **Forecasts for the deficit (public sector net borrowing) as a % of GDP** have been revised up since November. It has been revised up in 2016-17 by 0.3%, 0.7% in 2017-18, by 0.8% in 2018-19. It remains the same in 2019-20 and has been revised up by 0.1% in 2020-21. The total amount of borrowing in cash terms has increased by £38.4bn over the Parliament.
- **Unemployment** is expected to fall to 5% in 2016, 0.1% lower than predicted in November 2015. It will then rise slightly to 5.3% by the end of the Parliament. Overall forecasts for unemployment are better than in November.
- **Employment** is due to rise slightly by 100,000 in 2016 and then remain flat over the rest of the Parliament.
- **Inflation (CPI)** forecasts have been lowered in 2016 and 2017 by 0.3% and 0.2% respectively. Inflation is predicted to be 0.7% in 2016, 1.6% in 2017, 2% in 2018, 2.1% in 2019 and 2% in 2020.
- **Average earnings** have been revised down significantly over the Parliament. Average earnings will grow by 2.6% in 2016 down by 0.7% in 2016, grow by 3.6% in 2017 down by 0.1%, grow by 3.5% in 2018 down by 0.1%, grow by 3.4% in 2019 down by 0.3% and grow by 3.6% in 2020, again down by 0.3%.

Recent budgets have only indirectly targeted charities and it appears that today is no exception. Continued pressure on government budgets, including local authority funding, will be of notable concern to many charities. Against a backdrop of slowing growth forecasts, our view is that incremental measures by the government to address the deficit have, and will, continue to result in downward pressure on the third sector as well as the broader economy. From an investment perspective, the prospect of Brexit and subdued market returns over recent months present additional near term challenges.

Nicola Barber, Head of Charities, James Hambro

This year the external changes have not been kind and the OBR has duly recalculated the projections for the rest of the parliament. However, the Chancellor is not in a position to change most things, having only recently made the announcements back in November. So Budget 2016 is not big on anything new and the changes made are negligible, especially when compared to the mountain of debt that Britain has now incurred. He has also made clear that this is a budget for the long term, which is another reason for not changing anything!

Politics

Given the kicking that charities have had in the press over the past year it was to be expected that the Chancellor would join in with further restrictions. However, this time charities can be glad not to be noticed except for the lucky few named as recipients of LIBOR fines or the tampon tax. Spare a thought for Social Enterprise which was not even mentioned.

Chris Harris, Partner, MHA MacIntyre Hudson

Tax

The Chancellor introduces tax measures with a view to put more money back in people's pockets. On the face of it, we might expect household disposable income to increase, thereby strengthening charities' donor base. However, with the OBR predicting a slowdown in wage growth we will have to wait and see whether this translates into reality.

The key tax measures introduced are:

- The Chancellor will raise personal allowance again. From 2016/17 the personal allowance will be from £11,000 and in 2017/18 will rise to £11,500.

Continuing a trend set in earlier years, the Chancellor announced that the tax-free personal allowance for individuals is to increase again next year. This means that more individuals on low incomes, such as pensioners, will not pay any tax at all. For charities, a reduction in the numbers of taxpayers means fewer people who can opt for Gift Aid. HMRC is expecting overall levels of Gift Aid to reduce and so it may lead to questions if your charity has increasing levels of Gift Aid.

Helen Elliott, Sayer Vincent

- **The higher rate threshold for income tax will be raised from £43,000 April 2016 to £45,000 in 2017/18**.
- **Fuel duty is frozen for this financial year for the 6th year in a row**.
- The Chancellor has promised further investment into the digitalisation of HMRC. From 2018 HMRC will adopt a pay-as-you–go tax payment for those who are keeping digital records.
- There is also a **£71 million** investment to produce a 7-day a week HMRC service, improved telephone services and dedicated phone lines and online forums to get help and support for filing and paying taxes for first time users.
- Office of Tax Simplification will review whether employee NICs should be moved to an annual, cumulative and aggregated basis and a payroll basis.
- **The Climate Change levy will be introduced in 2019/20 and will raise £425m in that year, and £35m in 2020/21.** In our response to the government's consultation on the business energy efficiency tax landscape, CFG called for charities to be exempt from energy tax which we roughly estimate will cost the sector £12m. Today the government has said that they will be consulting on *de minimis* arrangements to exempt small or low energy-consuming charities later this year.
- **The rate of Insurance Premium Tax is increasing by 0.5% from 9.5% to 10%.** This is much lower than expected and good news for charities who cannot – in this period of precarious funding – afford to cut back on insurance.

"This increase is less than was feared, but assuming insurers pass on the increase to customers it will nevertheless be an unwelcome additional cost in premiums paid by not for profit organisations."

Kingston Smith

Welfare

- **The Chancellor has breached the welfare cap in all years of this Parliament, according to the Office for Budget Responsibility.**
- The Chancellor is going to be spending £3bn more on welfare spending within the cap than was anticipated at the Spending Review.
- This is mainly driven by expected increased in disability benefits, with the personal independence payments and disability living allowance costing £5.7bn more over the Parliament.
- Incapacity benefits and attendance/carers allowance are also estimated to cost more by over the lifetime of the Parliament.
- **The government is planning to make additional cuts of around £5bn to try and offset some of the increases.**
- The main method for achieving these savings will be reviewing Personal Independence Payments and cutting Employment Support Allowance (ESA)

Business rate relief

The Chancellors plans for business rates were one of the main parts of the Budget 2016.

- **While charity rate relief was not mentioned directly the Treasury has confirmed to CFG, NCVO and other sector bodies that the 80% mandatory rate relief for charities will remain**.
    - The next step for charities will be to argue for 100% mandatory rate relief, which CFG has raised in previous consultations on this issue.
- Some charities which do not receive full business rate relief may benefit from the permanent doubling of Small Business Rate Relief (SBRR) from 50% to 100% and increase the thresholds to benefit a greater number of businesses.
- Businesses with a property with a rateable value of £12,000 and below will receive 100% relief. Businesses with a property with a rateable value between £12,000 and £15,000 will receive tapered relief. **This may help social enterprises, Community Interest Companies and other non-charitable social sector organisations.**
- **Moreover, charities which do pay business rates will benefit from the switch in annual indexation of business rates from RPI to be consistent with the main measure of inflation, currently CPI which is traditionally lower.**
- The Greater London Authority will retain 100% of businesses rates from April 2017.
    - Pilot schemes for 100% business rates retention will be introduced in Liverpool City Region and Greater Manchester.

"Charities in some areas have already seen the removal of 20% discretionary rates relief and challenges to rates relief for charity shops. While the announcement of a cut to the small business rates relief is welcome news for small business, and may benefit trading subsidiaries, this does raise concern that local authorities may seek to make up the deficit by further challenges to discretionary charitable reliefs."

Anna Bennett, Charities Partner, haysmacintyre

Devolution

The continued devolution revolution could change opportunities for charities in certain areas and sectors in the UK:

- The introductions of elected mayors across the UK in theory might allow charities to have a greater voice in shaping policies in devolved areas, but there are also risks as the current formula focuses on businesses and infrastructure, ignoring charities and social enterprises.
- Mayoral devolution deals that predate the 2016 Budget will receive single pots of funding for local priorities, worth **£2.86 billion** in total.
- **A Coastal Communities Fund will be open for applications from summer 2016 for projects in 2017/18 which charities may wish to be involved in bidding for**.

- Local government is facing additional cuts of £1.3bn over the course of this Parliament – with spending by local government due to be £1.1bn lower by 2020-21.
- Council Tax receipts are forecast to increase by £2.3bn over the next five years, but interest rates and policy changes by the Chancellor including increasing small business rate relief.
- The Office for Budget Responsibility also expects councils to use their reserves in the early part of this Parliament to offset the cost increases, but this doesn't include additional funding that councils could generate through asset sales.
- There is considerable uncertainty ahead with a consultation on business rate retention due in the summer and this means that it is difficult to predict the level of spending cuts that may be required to balance the books by the end of the Parliament.
- CFG will be monitoring the consultation on business rates closely.

"The Chancellor had forewarned of more tough decisions to come and today's Budget has highlighted the challenges facing us; lower growth and further cuts to budgets will have a real impact on some charities and their work. For others a windfall is heading their way and regional investment may see further opportunities for charities to benefit. However, competition for funds will be strong and, perhaps, charities with the resources to coordinate and organise will benefit the most. So whilst this was a budget for small business, what about the small charity?"

James Pike, Head of Charities, Waverton Investment Management

Other key departmental news

- **The Chancellor has committed to finding a further £3.5 billion of public spending in 2019/20**. This is added onto the £21.5 billion savings pledged in the Spending Review 2015, resulting in a total of £25 billion public sector savings.
- Departmental spending will fall in real terms at an average of 0.9% per annum from 2015/16 to 2019/20.
- The efficiency review conducted by the Paymaster General will report in 2018 on all departmental spending which may lead to further cuts in spending.