Charity Finance Group: Autumn Budget 2017

22 November 2017 – 6pm

This briefing provides a summary of the highlights of the Autumn Budget 2017, including those of particular interest to the charity sector. We have also asked some of our corporate members to put forward their initial responses to measures announced in the budget which are placed next to relevant announcements.

Useful links:

- CFG's Autumn Budget Live Blog
- https://twitter.com/CFGtweets
- HM Treasury Autumn Budget 2017
- Office for Budget Responsibility's Economic and fiscal outlook, November 2017

Overview

The 2017 Autumn Statement has been particularly sparse for charities. It still seems that the Prime Minister and the Chancellor have given no considerable thought to how charities play an economic role in the 'shared society'. Instead, the Chancellor focused on the policy areas that were the main causes of the Conservatives losing their majority in the June General Election. These were; Brexit, stalling of growth, the NHS and home ownership for young people.

While charities can, and should, benefit from some of these policy announcements, it does not make up for the few targeted giveaways the charity sector received in the Budget. Charities will also need to keep an eye out on future government consultations and green papers. However, no news for the sector is good news. The concerns around a potential increase in Insurance Premium Tax (IPT) and changes to business rate relief have proved to be unfounded, for now.

CFG has worked with partners across the charity sector to identify ways in which the Chancellor can bring positive changes to the charity sector including. We must continue to make the case to government that supporting charities and their beneficiaries makes good business sense.

If you would like to discuss any of the issues arising from the Autumn Budget 2017, please contact our Policy and Public Affairs Officer via email heather.mcloughlin@cfg.org.uk or on 020 7871 5476.

Latest data on the UK economy

To accompany the Budget, the Office for Budget Responsibility (OBR) also publishes forecasts for the economy and public finances.

- **Growth** – the OBR has reduced its expectations for growth in 2018 from 1.6% to 1.4%. The new forecast from the OBR sees predicted growth to be down to 1.3% in 2019/20. Growth is expected to rise back to 1.6% by 2022. This is the first time in decades that growth has been predicted to be below 2% for every year.

- **The deficit (public sector net borrowing (PNSB)) as a % of GDP** - the OBR predicted that 2017/18 will be the final rise of PSNB, at £49.9bn. It is expected to drop to £39.5bn in 2018/19 and will reduce down to £25.6bn by 2022/23. If these predictions remain, then they will give the government more fiscal confidence and allow for greater public spending.

- **Unemployment** - is expected to fall to 4.3% in 2018 but then rise to 4.6% by 2022. This is an improvement on previous estimates, which expected a higher rate of unemployment.

- **Employment** - is due to rise slightly by 0.9% in 2018 to 32.3m and rising to 32.7m by 2022. Lower unemployment and higher employment however, mean higher pressure of wages which could create higher costs for charities.

- **Inflation (CPI)** - is predicted to be 2.7% in 2017, 2.4% in 2018, to 1.9% in 2019, to 2.0% in 2020, and to 2.0% in 2021.

- **Earnings -** average earnings are expected to grow far more slowly and are predicted to be 2.3% in 2018 and in 2019. They are expected to rise to 3.0% in 2020, a 0.4% drop from the expected growth of 3.4% predicted in March 2017. This could reduce prospects for growth in charities fundraising and trading income streams.

- **Inheritance tax –** The OBR has reported that annual inheritance tax receipts will increase up to £6.5 bn in 2022/23.

Lower growth and lower pay will have an impact on the charity sector, as it will mean less money in the pockets of the public which will have an impact on fundraising our sector's main source of income. Although in times of low pay growth; people don't cut back on charitable giving, they are unable to give more. At a time when charities across the country are investing more in fundraising, this may reduce the rate of return as there is greater competition for a pie which isn't growing as much as was predicated.

All this has had an impact on the public sector and although the Chancellor has eased some of the cuts, scrapped the public sector pay cap and found more money for the NHS, there hasn't been a significant loosening of the purse strings. Most of the available extra money has been pumped into physical infrastructure rather than public services or the preventative work that charities are undertaking. The Industrial Strategy may include more reference to the work that charities do to support society and the economy, but no mention in the Budget.

Charities will also see their wage bills go up through another increase in the National Living Wage. For the average full-time member of staff that pays the National Living Wage, the costs to a charity employer are going to increase by around £246 a year including pensions, employers NIC and the NLW increase. So charities will need to find that money from somewhere.

Charities

With a budget focused on Brexit and the political fallout from the General Election in 2017, there was very little focus on charity specific policies. The few that were relevant for some charities are:

- **LIBOR Fines** – The government has announced that a further £36 million will go to armed forces and emergency service charities over the next three years. This will mean the end of the LIBOR Charity Funding Scheme, bringing the total of funding commitments to £773 million.
- **A further delay** in allowing charities to register jointly with HMRC and the Charity Commission. HMRC has declared that this is still work in progress.
- **The introduction of the Apprenticeship Levy and auto-enrolment** into workplace pensions is expected by the OBR to reduce average earnings by 0.3 and 0.4% respectively by 2021.
- **The government has committed to** working with employers on how the Apprenticeship Levy can be spent. CFG will continue to call for a greater understanding of the unique issues that charities who pay the levy face.
- **Kensington and Chelsea Council will receive £28 million** additional funding for mental health services and local community space post-Grenfell tower.
- **The government will publish a consultation in 2018** on how to make the taxation of trusts simpler, fairer, and more transparent.
- **The government will extend Qualifying Care Relief (QCR)** (a tax that simplifies the covering of expenses incurred by carers and allows them to keep simple records) to self-funded Shared Lives care payments.
- **Over £5m in banking fines** will be allocated to the devolved nations. Projects that will be supported will be mental health support for veterans in Scotland, training and work opportunities for veterans in Wales, and support for injured police officers in NI.

***"Charity Auditors are not an extension of the regulator**. They are appointed by charities to provide independence. However, a guide issued today by the 3 UK charity regulators makes clear that in addition to areas that auditors must report there are a wide range of* *matters that auditors are encouraged to report upon. Their time is in effect paid for by the charities in their audit fees. Meanwhile calls from the sector for improved funding for the Charity Commission went unheard by the Chancellor."*

– **Chris Harris,** Advisory Partner, MHA Macintyre Hudson

"With four mentions of the word "charities" in the Budget document, this was not a big Budget for charities, although several announcements will impact the sector. For example, the Budget included an increase to the national minimum wage, a new duty to be levied on certain cider to target excessive consumption by vulnerable individuals, and funding to modernise the poppy factories in Richmond and Edinburgh. The completion of the LIBOR Charity Funding Scheme was also announced, with a further £36 million of banking fines to be shared out over the next 3 years among armed forces, emergency services and other charities."

- **Julie Hutchison,** Charities Specialist at Standard Life Wealth

---

"The budget has confirmed that almost three quarters of a billion pounds in LIBOR fines have been distributed to support certain areas of the charity sector. Whilst a further £36m has been committed over the next three years, this will be the last set of payments, potentially leaving some organisations looking for alternative funding streams at a time of continued pressure on household incomes."

- **James Pike,** Head of Charities, Waverton Investment Management

---

Brexit

The Chancellor announced:

- UK government has already **invested £700 million in Brexit**.
- **A further £3 billion** has been set aside for Brexit preparation.
- This has resulted in government's budget measures on spending rising to £8.6 billion in 2019/20 and £4.8 billion in 2020-21. The OBR put this large increase down to preparations for Brexit.

However, it is unclear if this preparation has looked at key issues for charities with regards to Brexit, such as around EU workers, and the loss of access to EU funds.

Tax

There were few announcements for taxes that directly benefitted charities. Some general tax announcements were:

- **Personal allowance** will be raised in April 2018 to £11,500 from £11,300 and the higher rate threshold to £46,350.
- **The Higher Rate Threshold is expected to rise to £50,000 by 2020.**
- Following the very public U-turn that the Chancellor had to make last year, the Treasury has committed to delaying the implementation of major changes to National Insurance Contribution system for one year.
- **Fuel duty has been frozen for the eighth year in a row.**
- Duty rates on alcohol will remain frozen.
- **The excise duty on cigarettes** will rise by 6%.
- The government will set the Climate Change Levy rates for 2020/21 and 2021/22 in the 2018 Budget. Whether charities will have to pay this new levy will remain to be seen.
- **Local authorities will be able to increase council tax premium on empty homes from 50% to 100%.** This could benefit charities in areas which have a large second-home ownership problem.

"There had been rumours that the threshold would be dropped to half or even a quarter of the current level so that many more small businesses were required to register this is a relief as a it would have had a huge administrative burden on many charities not currently registered for VAT."

– **Helen Elliot,** Partner, Sayer Vincent

Gift Aid

Following the review of Gift Aid donor benefit rules, the government has announced that it will simplify the rules by reducing the current three monetary thresholds to two.

All existing extra-statutory concessions will be legislated and changes will come into effect from April 2019.

“At Autumn Statement 2014 the government announced that it would review the Gift Aid donor benefit rules with the intention of simplifying them. Following a call for evidence, the government launched a consultation on 18 February 2016 setting out a range of options for simplifying the current rules. The responses to that consultation were helpful in developing specific proposals for reform which were set out in a second consultation that ended on 3 February 2017. A summary of responses to the consultation will be published on 1 December 2017.

The government today announced that it would replace the current three tier thresholds with two thresholds. Under this reform donors will be no worse off in terms of the value of benefits that charities can offer them as the new limits will be, for every eligible donation, at least as generous as the current limit.”

– **Hasmukh Dodia,** Policy Adviser, HMRC Charities Tax Team

“This change increases the benefits that may be provided in relation to donations over £100. A donor of £1,000, for example, may now receive a benefit valued at £70 without compromising the Gift Aid status - previously the limit applying would be £25. Those in the NFP sector may not relish the need to get used to a new set of rules, but overall we expect that they will welcome this simplification, which will remove a previous “cliff-edge”.

\- **Jamie Whale,** Tax Manager, Kingston Smith

“We were first excited to hear of the long-awaited Simplification to Gift Aid donor benefit rules but when we read on were disappointed that the government had only announced a withdrawal of one of the thresholds. There appeared to be winners and losers from this single change but we have since been told that this is a step or “splicing” change. Hence this should be good news or no change for most. The limited £25 value of donor benefits for (“as a consequence of”) donations of £100 - £1,000 will no longer apply from 6 April 2019 and swept up within the 5% benefit limit currently applying to donations over £1,000. It appears good news for some higher-level supporter schemes which will no longer be restricted to the £25. For example, in the arts sector there are often Patron supporter schemes paying between £400 and £1,000. The value of benefits permissible under Gift Aid to these supporters for free exhibitions etc. will now increase.”

\- **Luke Savvas,** Partner, Buzzacott

Irrecoverable VAT

A grant has been created to help rescue charities meet the cost of irrecoverable VAT.

Other charities do not appear to benefit from this irrecoverable VAT refund.

Insurance Premium Tax (IPT)

Since the increase of the rate to 12% in the Chancellors Spring Budget in March 2017, there have been concerns within the charity sector that the Chancellor would see the IPT as an easy way of raising revenues increase it to 20% to bring it in line with VAT.

- **IPT has not been increased** further from the standard rate of 12% introduced in June 2017, meaning that charities will be paying £50 million in IPT each year.
- **The OBR has stated that IPT receipts jumped by 31% in 2016-17**, and are expected to rise by another 19% by the end of 2017. They predict that after that the IPT will flat line as there have been no announcements on a future rise.

"No mention of Insurance Premium Tax increase which is good news for charities as the sector has been hit hard by increases over the last couple of years. However the government have not announced an IPT tax cut or relief for charities."

– **Tim Wiltshire Cert CII,** *Senior Insurance Broker, Access Insurance*

"It's good news for charities that there will be no further IPT increases following today's Budget announcement. Buying insurance is an unavoidable cost for charities; either because they are legally required to, or because they are acting responsibly by putting adequate protection in place for their activities and assets. The doubling of IPT in the past two years up to 12% has been very hard to take for charities and any further increases would have been devastating. We will continue to work hard alongside the Charity Finance Group (CFG) to raise awareness of the negative impact of IPT on the work that charities do and to urge the Government to consider an exemption or reduction for third sector organisations."

- **David Britton,** Charity Director, Ecclesiastical

Stamp duty land tax

The removal of Stamp Duty Land Tax (SDLT) for first time buyers was one of the major announcements for the Chancellor in this year's Budget.

- The government has **removed stamp duty** for first time buyers when the property is worth £300,000 or below.
- This is expected to benefit **95% of first-time buyers** that will still pay SDLT, and 80% of first-time buyers will pay no SDLT.

While this is not a direct benefit for charities, this could potential help a large proportion of the under 40s, who have struggled with the rising cost of home ownership. This could mean an increase in disposable income for young renters and first-time buyers, potentially meaning more donations for charities.

Business rates

Business rates relief is again an area of continued concern for charities. There appeared to be few announcements around business rates, but they were:

- The government has committed a further **£2.3 billion** in support for businesses on rate relief due to the recent rise in inflation. Local government will be fully compensated for the loss of this income.
- **Business rates** retention pilot is scheduled to still go ahead for London.
- This pilot will see **100% business rates retention** in London by 2018/19. The Greater London Authority and London boroughs will be able to pool and invest revenue growth on a pan-London basis.
- **Rises in business rates** to be pegged to CPI measure of inflation, not higher RPI.

The lack of confirmation of a 100% business rate relief for all charities is worrying for the sector. CFG has predicted that the charity sector's expenditure on business rates could hit over £400m by the end of the decade. This data confirms that the profile for business rates is a getting stepper in years ahead.

"Business rates remain a burden to the charitable sector, despite existing reliefs available to charities. Today's announcement that business rate rises will be linked to the lower CPI measure of inflation from April 2018, much earlier than planned, should come as welcome news to the sector."

\- **Louise Veragoo,** NFP Tax Director.

Welfare and public services

While the NHS received considerable attention in the Chancellor's Budget speech, there was next to no mention of social and mental care funding. The main announcements were:

- **NHS England will receive an additional £6.3bn in funding, with £335m this winter.**
- **£900m will be provided in 2019/20 to help address future crises within the NHS.**
- The government will be publishing a green paper in December 2017, setting out plans for children and young people mental health services.
- £10bn for the NHS Capital Investment Fund to improve NHS property and estates.
- **The state pension will be increased by the triple lock, a cash increase of £3.65 per week for the full basic state pension.**
- **Increase in National Living Wage to £7.83 (for over 25 year olds, different rates apply for employees below the age of 25) in April 2018 an increase of 4.4%**. The government predict that this will benefit over 2 million workers. Full-time workers will see a £600 annual pay rise.

Research from the Third Sector Research Centre shows that the total increased cost to the sector by 2020 will be a minimum of £500 million. Without a meaningful support package for the sector, voluntary organisations will struggle to meet rising costs and will face the very real prospect of closure, potentially resulting in the loss of vital services for the most vulnerable in society and ultimately, increased costs for government. There is particular concern among those charities that provide social, residential or public services in which 51% of people working in the sector are employed.

National Minimum Wage. *Many social care providers have been hit by the HMRC approach to sleep-ins. This is where an allowance is paid for staff sleeping in at a care home and therefore being available to be called out. The NMW was not designed for these circumstances and it has taken some time for the unions, employers and the Government to decide how it should apply. HMRC has changed their approach completely and is now insisting that back-pay for the last 6 years is due. The bill of £400m for social care charities may well cause some to become insolvent.*

– **Chris Harris,** Advisory Partner, MHA Macintyre Hudson

It was expected that the Chancellor might remove the pay cap in this budget, however, this is still expected to be lifted in 2018. The Chancellor said that any pay rises for NHS staff would not come from the NHS front-line budget. Charities that provide social care will need to keep an eye on these pay rises as changes to public sector pay will have an impact on the sector. Many charities are competing with the public sector for staff and awards to their staff will have an impact on pay settlements in the charity sector. One of the few areas of expenditure which haven't risen significantly in recent years has been pay, so a return to 'normal' levels of pay increases could add further pressure to charity budgets.

Universal Credit

Due to continued pressure from both the media and Conservative backbenches, there were some key announcements around Universal Credit (UC):

- **A £1.5bn package** to address concerns around the delivery of UC.
- From February 2018 will remove the seven day waiting period at the beginning of a claim so entitlement will start on the first day of the claim.
- From April 2018 the advancement system will change to ensure that any household can access a month advancement of credit within five days, and will be able to do so online.
- New UC claimants in receipt of housing benefit will continue to receive two weeks when switching to UC.
- Repayment period for advances to increase from six to twelve months.

For charities who work with beneficiaries that have been affected by the changes to Universal Credits these policies might provide a welcome relief. However, with the continued rise in inflation, squeeze on wages and the continuation of the housing crisis, this might be a short term fix to a long term problem.

Devolution

While the Chancellor's predecessor the Northern Powerhouse was not mentioned directly, the government has still agreed a commitment of devolving and broadening power across the UK. Some major announcements were:

- The Northern Powerhouse would still see considerable investment, with the High Speed 2 rail receiving £300m.
- Cambridge – Milton Keynes – Oxford corridor will see a significant investment into an area commonly referred to as the 'Golden Triangle' of research and learning.
- The Midlands Engine will receive most of its funding (a total of £267 million) in most infrastructure projects that will post productivity and transport links.
- Hammond announced additional funding for the devolved nations:

    - **£3.2bn for the Scottish government;**
    - **£1.2bn for the Welsh government;**
    - **£650m for the Northern Ireland executive.**

This is significantly more investment than was promised in the March 2017 Spring Budget. This could mean that governments in devolved nations will have more spending money to allocate to charities.

Productivity, infrastructure and technology investment

The investment into the UK's technology sector and the future role this will have in the post-Brexit UK economy.

- Increase and extension of the National Productivity Fund to be £31bn.
- The government has invested £23bn, over a 5 year period, to the UK's physical infrastructure.
- £500m will be invested into the tech sector, from fibre broadband to 5G mobile networks infrastructure. This could be good news for charities in rural areas.
- £2.3bn allocated for investment in research and development by 2021/22. This might be particularly important for charities who work in the medical research area.
- Digital economy royalties relating to UK sales which are paid to a low-tax jurisdiction to be subject to income tax as part of tax avoidance clampdown. This is expected to raise about £200m a year.
- **Regulators' Pioneer Fund** – To help regulators be innovative in developing new products based on emerging technologies, the government will establish a new £10m Regulators' Pioneer Fund. The Charity Commission could benefit from this fund.
- **National Retraining Partnership** sees the government entering into a formal skills partnership with the Trades Union Congress and the Confederation of British Industry, to develop the National Retraining Scheme. This will work with the new Skills Advisory Panels to ensure that local economies' needs are reflected.
- **Work-based training** will see the government providing £8.5m to support in work training over the next two years.
- Very little has been said about the Apprenticeship Levy. The government has announced a commitment to continue to work with employers to ensure the levy works effectively and flexibly for industry. CFG will continue to push for this for the charity sector.

"We welcome the confident Budget that the Chancellor delivered today to ensure Britain builds an economy fit for the future. Examples such as boosting investment into education including computer science and demonstrating further movement with research and development to boost digital skills with an investment of £30m (in conjunction with the CBI and the TUC) for long distant learning courses are promising. In addition, we were pleased to see evidence of further real commitment to the regions, with the second devolution deal announced in the West Midlands with local mayor Andy Street. He said it would be all about innovation and there were encouraging signs to bring alive the principles behind the government's Industrial Strategy – a fairer Britain with greater opportunity for all."

- **Gordon Wilson,** CEO, Advanced

Other key department news

There was limited policy on the fiscal status of government departments. Figures were released for budget estimates for all departments. Here are the departments most key for charities:

- **The Department for Communities and Local Government's budget will fall significantly** from £9.5bn in 2017/18 to £7.8bn by 2019/20.
- **The Department for Culture, Media and Sport's budget will remain flat** over the coming years, rising slightly from £1.4bn in 2017/18 to £1.5bn in 2019/20.
- **The Department for Environment, Food and Rural Affairs' budget will fall slightly** from £1.6bn in 2017/18 and then falling to £1.5bn by 2019/20.
- **The Ministry of Justice's budget will fall** from £6.6bn in 2017/18 to £6.0bn for 2019/20.
- **The Department for International Development's budget** will only slightly increase from £7.56n in 2017/18 to £8.2bn for 2019/20.
- **Cash for maths** – schools will receive £600 per pupil who takes up Maths at A-level. This could create many future charity finance directors.

A final word

"For a government looking to the future it was disheartening to only hear references to business and physical infrastructure. This is backward looking, because our future prosperity comes from having strong communities which charities help to create. Bricks and mortar is fine, but real growth comes from sustainable communities where people want to live.

We need to put our role at the centre of the economy and society in front of politicians, so that public investment benefits everyone. It is too early to say whether Gift Aid Donor Benefit Rule changes will help or hinder the sector, and we'll need to read the fine detail closely."

Caron Bradshaw, CEO of Charity Finance Group