Why the Brexit deal will be bad for charities

About Charity Finance Group

Charity Finance Group (CFG) is the charity that works to improve the financial leadership of charities, promote best practice, inspire change and help organisations to make the most out of their money so they can deliver the biggest possible impact for beneficiaries. CFG has over 1450 members, they manage over £21 billion in charitable income.

Summary

Though much of the Withdrawal Agreement does not address our primary concerns as indicated in our previous cost/benefit analysis of Brexit,[1] as discussed in this briefing, on the occasion when they do, they do not offer us confidence that the concerns of the voluntary sector have been, or will be, addressed. This will leave the charity sector with many of the costs of exiting the EU, but none of the most important benefits**. We conclude that this deal is worse for charities than remaining in the EU and therefore if MPs wish to represent the concerns of charities, they should vote against it.**

Funding

The government has indicated that there will be a United Kingdom Shared Prosperity Fund to replace EU Structural and Investment funds (ESIF), with its stated goal is to reduce inequalities between communities and help improve local growth by improving productivity.[2]
As of yet there has been insufficient detail on the UKSPF for civil society to have confidence that it will satisfy the concerns ourselves and others in the sector have outlined.[3] While not officially confirmed, there have been indications that the UKSPF will be distributed by LEPs. Given that civil society is not represented on LEPs, we have concerns that the voice of our sector will not be represented and as such charities will not receive the same amounts of money they currently do under ESIF funding.

Immigration

One issue which the government has made clear throughout the negotiations, regardless of our future relationship, is that there will be an end to free movement for EU nationals following our departure from the EU.[4] This combined with an overarching policy to reduce net-migration is deeply concerning for the charity sector, as although research commissioned by CFG indicates that only C.4% of the charity workforce are EEA nationals, this number has doubled since the year 2000 and is increasing at a faster rate than the charity workforce as a whole.
Even more significant is that the EU workforce in the charity sector is concentrated in handful of sectors; social care/work, residential care and education. With a tight labour market and chronic

[1] https://www.cfg.org.uk/userfiles/documents/Policy%20documents/Brexit%202018/Cost_benefit%20analysis%20of%20Brexit%20for%20charities.pdfhttps://www.cfg.org.uk/userfiles/documents/Policy%20documents/Brexit%202018/Cost_benefit%20analysis%20of%20Brexit%20for%20charities.pdf
[2] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-07-24/HCWS927/
[3] https://locality.org.uk/wp-content/uploads/2018/05/Locality_EU-Replacement-Fund_Future-Places_FINAL.pdf
[4] Political Declaration IX. Mobility 50. “Noting that the United Kingdom has decided that the principle of free movement of persons between the Union and the United Kingdom will no longer apply,”

shortages already reported in these sectors any further restrictions would be bad for charities in these sectors, and more importantly their beneficiaries.

Tax

Our reading of Title III Article 51, 2. 'Ongoing value added tax and excise duty matters' of the withdrawal agreement does not allow the UK the flexibility to remove irrecoverable VAT during the transition period. In CFG's reports on exiting the EU[5], we found that flexibility on tax, particularly VAT, would be a key benefit for the UK of exiting the EU. As irrecoverable VAT represents a considerable added cost for charities, totalling C.£1.5 billion annually.[6]

The political declaration is not legally binding and merely offers aspirations on our future relationship, but makes clear in 'XIV Level Playing Field for Open and Fair Competition 79' that future provisions should include level playing field arrangements on relevant tax matters, combining appropriate union and international standards. This would seem to indicate that there will not be an opportunity to change tax rules to allow charities to recover VAT, although there has been a great deal of uncertainty on this issue,and insufficient detail from government on the potential implications of these changes.[7] This could mean the sector will not be afforded the opportunity to reduce the cost of operating and allow charities to dedicate more resources to their beneficiaries.

State Aid

The current rules on State Aid often end up tying up charities and social enterprises in red tape, rather than supporting competition in real functioning markets. The government has been consistent that there will be on-going harmonisation with EU state aid rules, with the Level playing field requiring the UK to maintain current EU rules and for there to be an 'independent authority' to oversee these rules. The government has already indicated that this independent authority will be the Competition and Markets Authority.
This would lock in the current bad practice that we see where charities have to deploy resources to calculate whether resources are state aid, which ties up resources that could be better deployed for the service of promoting good causes.

No Deal

Perhaps the biggest risk of all for the sector is a no deal scenario. As the Office for Budgetary Responsibility has rightly pointed out in their October 2018 Economic and Fiscal outlook concerning Brexit "A disorderly one could have severe short-term implications for the economy, the exchange rate, asset prices and the public finances. The scale would be very hard to predict, given the lack of precedent.[8] This is coupled by Bank of England analysis stating that a no-deal could see the UK sink into a recession. This potential volatility poses too great a risk for our sector and should be avoided.

For more information on this Briefing please contact Richard Sagar, Policy Manager, on 02078715484 or policy@cfg.org.uk

[5] CFG: Cost Benefit Analysis of Brexit for charities- https://www.cfg.org.uk/userfiles/documents/Policy%20documents/Brexit%202018/Cost_benefit%20analysis%20of%20Brexit%20for%20charities.pdf
[6] https://cfg.org.uk/userfiles/documents/Policy%20documents/Charity_Tax_Plan.pdf
[7] While parliament has voted to leave the EU VAT system, this is subject to any backstop provisions.
[8] https://obr.uk/overview-october-2018-economic-fiscal-outlook/