INSPIRING FINANCIAL LEADERSHIP

Charity Finance Group: Spring Budget 2020

11 March 2020

This briefing provides a summary of the Office for Budget Responsibility (OBR) forecasts for the UK economy and public finances, and the main announcements of the Spring Budget 2020, including those of particular interest to the charity sector.

Useful links:

- HM Treasury Spring Budget 2020
- Office for Budget Responsibility's Economic and fiscal outlook, March 2020
- CFG Press Release

Overview

One can scarcely imagine how difficult it has been for new Chancellor Rishi Sunak in the lead up to today's budget. Having been new Chancellor for less than a month, he will have had little time to acclimatise to his new role, with arguably the most important fiscal event since the financial crisis in front of him.

The Bank of England (BoE) has also taken the unprecedented decision to make an emergency cut to interest rates to coincide with the package of measures launched in the Budget to counter the Coronavirus crisis. In the words used by outgoing BoE governor Mark Carney this was to have 'maximum impact' to 'bridge a potentially challenging period'. With the rate reduced by half a percentage point to the historically low 0.25%, this is of course means that there is very little room for further cuts to interest rates in the future. Banks will see their requirements to hold capital buffers loosened to help them continue to lend money, even while taking some losses. This should hopefully translate to greater cash flow to businesses from banks improving the availability of finance.

Two major themes have dominated coverage in the run up to today's budget; the ongoing, impact of the Coronavirus, and the Government's 'levelling-up' agenda. Both received ample treatment by the Chancellor.

There was an additional £30bn to mitigate the effects of the Coronavirus (more on that in the main briefing below), with £12bn of emergency stimulus, and a further £18bn to be spent next year. This was alongside a raft of additional spending commitments, with relatively few tax rises to offset these. As you might imagine higher borrowing has taken most of the strain.

As Torsten Bell of the Resolution Foundation has put it*, "we have a Conservative chancellor outlining plans for a larger State than under Tony Blair and more borrowing than Gordon Brown."* Under ordinary circumstances, this would be shocking news, but we do not live in ordinary times.

There was lots on offer for many sectors, including infrastructure investment, more investment in R&D, additional funding for the green economy, and significant funding for the NHS, but charities have been somewhat ignored. As you will see below, there have been some piecemeal measures including the odd pot of money for veterans, rough sleepers and youth funding, but with so much money on offer it is disappointing that as in previous budgets there is not a more holistic offer for the sector, and its role in the 'levelling up' agenda.

With the Spending Review occurring in Autumn, and the overall spending envelope announced at the Budget, CFG will be working with our sector partners to make the case for more funding for and local authorities and charities to help ensure that civil society is able to thrive and deliver the most benefit and impact for beneficiaries and communities across the UK and beyond.

If you would like to discuss any of the issues arising from the Spring Budget 2020, please contact the team via policy@cfg.org.uk.

Latest data on the UK economy

The Office for Budget Responsibility (OBR) has published forecasts for the economy and public finances.

Growth – the OBR has forecast the GDP to grow by 1.1% in 2020 increasing slightly to 1.8% in 2021. Growth is expected to decrease slightly to 1.5% in 2022, reaching 1.3% in 2023 and 1.4% in 2024.

The deficit (public sector net borrowing (PSNB)) as a % of GDP – PSNB is set to rise significantly compared to the OBR's March 2019 forecast. It was previously forecast to fall to £40.2bn by 2020-21 it is now set to increase to **£54.8bn** over the same time period. It is set to increase further to **£66.7bn by 2021-22**, as opposed to the March 2019 forecast, which indicated it would fall to £37.6bn.

Unemployment - is set to remain at 3.8% until 2021 when it is set to increase slightly to 3.9% in 2022, rising ever so slightly to 4% by 2023 and 4.1% by 2024, but this is still very low by historical standards.

Employment - is due to increase slightly in 2020 to 33m and increase further to 33.1m by 2021 and 33.2m by 2022.

Inflation (CPI) - is predicted to be 1.4% in 2020, 1.8% in 2021, rising slightly above the Bank of England's target of 2% to 2.1% in 2022 remaining at 2.1% in 2023.

Earnings - average earnings are expected to grow every year of the forecast, and by 3.3% in 2020, 3.6% in 2021 3.4% by 2022 and 3.1% in 2023 and 2024.

Inheritance tax – The OBR has reported that annual inheritance tax receipts will increase from £5.1bn in 2019/20 to £5.5bn by 2020/21, increasing further to £7.1bn by 2024/25.

The figures on growth are still disappointing, with GDP growth remaining below 2% for the foreseeable future, but represents a step change in the Government's approach to public spending, willing to borrow considerably more than recent Governments, and almost doubling Public Sector Net Borrowing (PSNB) by 2020/21. This is especially surprising when we consider that it is a Conservative chancellor doing this.

But these figures should be taken with the very important caveat that the OBR's forecast does not take into account the impact of the Coronavirus on the economy outlook, in fact the OBR goes so far as to say "the outlook is therefore likely to be significantly less favourable than this central forecast suggests" especially in the short term but to a degree that remains highly uncertain, even now. The OBR will be producing another shorter forecast on 12 March, but again this will not take account of Coronavirus or recent market moves, so we may be better off waiting until we have greater clarity on the impacts of the Coronavirus to the economy.

Coronavirus COVID-19 support measures

The Chancellor set out a £12bn package of temporary, timely and targeted measures to support public services, individuals and businesses through the economic disruption caused by COVID-19.

To support public services:

A COVID-19 Response fund, initially set at £5 billion for the NHS to treat Coronavirus patients, including maintaining staffing levels and Local Authority actions to support social care services and vulnerable people

£40m of new funding for the National Institute for Health Research and the Department of Health and Social Care to enable further rapid research into COVID-19

Up to £150m to the International Monetary Fund's Catastrophe Containment and Relief Trust

To support people affected by COVID-19:

Statutory Sick Pay (SSP) will now be available for eligible individuals diagnosed with COVID-19 or those who are unable to work because they are self-isolating in line with Government advice.

£500m Hardship Fund so Local Authorities can support economically vulnerable people and households. The Government expects most of this funding to be used to provide more council tax relief, either through existing Local Council Tax Support schemes, or through similar measures.

To support businesses experiencing increases in costs or financial disruptions:

The Government will bring forward legislation to allow small and medium-sized businesses and **employers to reclaim Statutory Sick Pay (SSP)** paid for sickness absence due to COVID-19.

Increase the Business Rates retail discount to 100% for one year , expand it to the leisure and hospitality sectors, and increase the planned rates discount for pubs to £5,000.

An additional £2.2bn funding for local authorities to support small businesses that already pay little or no Business Rates because of Small Business Rate Relief (SBBR).

A new temporary Coronavirus Business Interruption Loan Scheme, delivered by the British Business Bank to support businesses to access bank lending and overdrafts.

A new HMRC dedicated COVID-19 helpline, 0800 0159 559, from 11 March 2020 for advice and support.

"In dealing with the current COVID-19 crisis, the Government has announced a number of measures to help both employers and individuals through the uncertain economic period. Today's budget announced that employers are to be helped with a refund of SSP in certain circumstances to assist with sickness in their workforce. However, for the charity sector, where reliance falls heavily on a volunteer workforce and the impact of the virus could lead to a higher demand for services, this measure does not address the issues most acutely felt by the sector." **Louise Veragoo , NFP Tax Director, Haysmacintyre LLP**

"The Government intends to repay up to two weeks' SSP to employers with under 250 staff for Covid-19 sickness. SSP will also be paid from day one, not day four as currently. This is very helpful as currently whilst employees are entitled to receive it, employers cannot reclaim it. However SSP is generally lower than actual pay so charities may well still have additional cost depending on their own sick pay policies and any need for temporary staff." **Helen Elliott, Partner, Sayer Vincent**

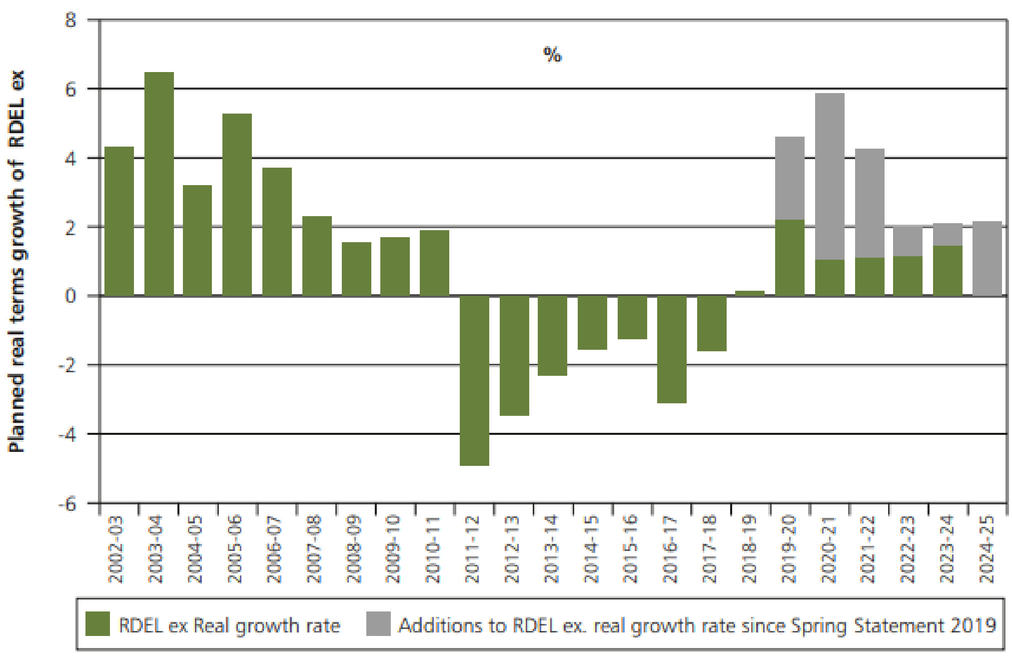
Spending Review

The Spending Review will take place this Autumn concurrently with the Autumn Budget. The Treasury has announced that the Comprehensive Spending Review (CSR) will conclude in July, and cover resource budgets for three years until 2024-25, and Departmental Capital funding for 2024-25. The CSR will see an increase in day-to-day departmental spending from £360.6bn in 2020-21 to £417.6bn by 2023-24.

This will see a significant increase in departmental spend, with total public sector current expenditure increasing from £787.7bn in 2019/20 to £940.8bn in 2024/25, and total managed expenditure (TME) (the total amount of money that the Government spends through departments, local authorities, other public bodies and social security) increasing from £886.8bn in 2019-20 to £1080.3bn in 2024-25. This will go some way to addressing the sizeable cuts to departments relevant to the charity sector, with the Ministry of Justice and Ministry of Housing, Communities and Local Government being particularly badly affected since 2010.

The CSR will help Government determine the allocation on the departmental expenditure limits (DEL) to different Government departments with the treasury accepting submission until 20 May, with CFG continuing to make the case for a more generous settlement for local Government.

Chart 1.9: Resource DEL excluding depreciation growth from 2002-03 to 2024-25[1, 2, 3, 4]



This graph is taken from the HMT Budget 2020 document

Funding announcements affecting Charities

There were very few specific announcements in the budget that directly related to charities but there were many announcements that will be of interest to the sector.

A £10m uplift in 2020-21 to **the Armed Forces Covenant Fund Trust**, to deliver charitable projects and initiatives that support veterans with mental health needs.

The Government confirms a **£250m Cultural Investment Fund** for culture, heritage, local museums, and neighbourhood libraries. Of this, £90 million will be made available from April for a Cultural Development Fund that will support cultural regeneration proposals outside of London

The Budget confirms **£500m for a Youth Investment Fund** to build new youth centres, refurbish existing youth facilities and provide high-quality services for young people across the country.

£8m investment in local football facilities alongside matched funding from the Premier League and Football Association.

United Kingdom Shared Prosperity Fund: The Government has committed to, at a minimum, matching current levels of funding to each nation from EU structural funds and will set out further plans at the Spending Review in the Autumn.

£237m for accommodation for up to 6,000 rough sleepers, providing a further £144m for associated support services, and £262m for substance misuse treatment services.

An additional **£2.5m was announced for research and developing best practice around the integration of services for families**, including family hubs, and how best to support vulnerable children.

An additional **£30m Changing Places Fund for the Changing Places toilet facilities** in new and existing buildings. These facilities are designed to provide sufficient space and equipment for people who are not able to use the toilet independently. The Government will change building regulations guidance by the end of this year to mandate the provision of Changing Places toilets in new public buildings.

An additional **£9.5bn for the Affordable Homes Programme**. In total, the programme will allocate £12.2 billion of grant funding from 2021-22 to build affordable homes across England.

Additional exemptions from the Shared Accommodation Rate (SAR) for Universal Credit and Housing Benefit claimants. This will enable rough sleepers aged 16-24, care leavers up to the age of 25, and victims of domestic abuse and human trafficking to live on their own, supporting their recovery from homelessness.

£10m in 2020-21 for new approaches to preventing domestic abuse, working with Police and Crime Commissioners to expand existing projects.

£46m from the Shared Outcomes Fund to provide improved support to individuals experiencing multiple complex needs, such as homelessness, reoffending and substance misuse.

The announcement on the United Kingdom Shared Prosperity Fund (UKSPF) begins to address the call that CFG along with other sector bodies made on the need for more clarity on the fund but we will have to wait until the Autumn for the final details, and the opening of the promised consultation, which CFG will be responding to.

Fundamental business rates review

As previously mentioned the Government has announced a fundamental review of business rates in England, which is due to report back in the Autumn. Business rates relief are the single largest tax relief for the sector (worth c.£2bn a year). CFG and sector partners will be making the case to protect existing rates reliefs for charities.

"The Government has confirmed that it will be undertaking a 'fundamental' review of business rates, which will be concluded later this year. Meanwhile, existing reliefs have temporarily been extended because of COVID-19, with specific mention of museums and theatres being included in this temporary measure. It will be interesting to see how this interacts with the existing charitable reliefs available and indeed, whether the wider review will result in any further benefits for charitable organisations." **Louise Veragoo – NFP Tax Director, Haysmacintyre LLP**

National Minimum Wage, National Living Wage and welfare

The remit of the Low Pay Commission will be extended to make recommendations with the view of reaching a National Living Wage (NLW) of two-thirds of median earnings by 2024, provided economic conditions allow. It will apply to workers aged 23 and over in April 2021, then to workers over 21 by 2024.

Consultation announced on the design of Carers' Leave: an in-work entitlement for employees with unpaid caring responsibilities, such as for a family member or dependents.

New entitlement to neonatal leave and pay for employees whose babies spend an extended period of time in neonatal care.

While it is good news for workers that there will be sizeable increases to the NMW and NLW, charities will be concerned that without corresponding increases to grant funding or contracts, it will only increase operating costs.

Comments from our corporate partners

"The increase of the employment allowance from £3,000 to £4,000 from April 2020 for businesses with NI bills of less than £100k is small fry when compared to the increase of 6.2% in the National Living Wage from 1 April 2020, and the expectation that it will reach £10.50 by 2024." **Rachelle Rowbottom, Tax Partner at BHP**

Devolution

The **Greater London Authority (GLA) will receive 67% retention of business rates in 2020-21**, in line with the GLA funding agreement made in 2017-18.

A number of **disability benefits are being devolved to the Scottish Government**, including Personal Independence Payment, Disability Living Allowance, Attendance Allowance, Industrial Injuries Disablement Allowance and Severe Disablement Allowance.

The **Scottish Government grant** will increase by £640m through to 2020-21

The **Welsh Government block grant** will increase by £360m through to 2020-21

The **Northern Ireland Executive's budget** will increase by over £210 million through to 2020-21.

Tax

The thresholds at which employees and the self-employed start paying **National Insurance contributions** (NICs) will be £9,500 from April 2020.

The Government has announced that the reforms to IR35 previously announced, will be legislated in the **Finance Bill 2020.**

From 1 January 2021 **postponed accounting for VAT** will apply to all imports of goods, including from the EU.

The Government will introduce legislation **to apply a zero rate of VAT to e-publications from 1 December 2020,** which will make it clear that e-books, e-newspapers, e-magazines and academic e-journals are entitled to the same VAT treatment as their physical counterparts.

From 1 January 2021, **the tampon tax will be abolished** through the application of a zero rate of VAT on women's sanitary products

Fuel duty has been frozen for the tenth year in a row

The Employment Allowance will be increased to £4,000. As a result, businesses will be able to employ four full-time employees on the National Living Wage without paying any employer National Insurance contributions (NICs).

Business Rates retail discount will be increased to 50% in 2020-21, it will be increased further to 100% for 2020-21. The relief will also be expanded to the leisure and hospitality sectors. Local authorities will be fully compensated for these Business Rates measures

The Government will shortly publish a summary of responses to the recent call for evidence on the operation of Insurance Premium Tax, along with information on a **forthcoming consultation setting out the next stage in reforming how IPT operates.**

The Government will publish an **evaluation of the introduction of Making Tax Digital for VAT**, along with related research.

The Government intends to introduce a **levy to be paid by firms subject to the Money Laundering Regulations** to help fund new Government action to tackle money laundering and ensure delivery of the reforms set out in the Economic Crime Plan. The Government will publish a consultation on the levy later this Spring.

The Government will look at how to improve the working of the **Apprenticeship Levy**, to support large and small employers in meeting the long-term skills needs of the economy.

Currently charities are exempt from the **5MLD regulations**, thanks to the work of NCVO, ACF, CFG and the Charity Tax Group, but it is still possible that the regulations could apply. We will provide updates as we hear more.

Comments from our Corporate Partners

"The Government will introduce legislation to apply a zero rate of VAT to e-publications from 1 December 2020, which will make it clear that e-books, e-newspapers, e-magazines and academic e-journals are entitled to the same VAT treatment as their physical counterparts. The Government expects the publishing industry, including e-booksellers, to pass on the benefit of this relief to consumers.

This will help charities with voting members and exempt membership income – for example professional bodies – who provide electronic journals to members and could then apply extra statutory concession 3.35 and zero rate part of their subscriptions and so increase VAT recovery. This is likely to have a more immediate impact than waiting to see how the NewsCorp case pans out." **Helen Elliot, Partner, Sayer Vincent**

"It was announced that from 1 December 2020, the VAT rate on e-publications will be aligned to that of their physical counterparts. This will be a very welcome change for the sector, who are heavily involved in the production and distribution of digital publications. This overdue measure reflects the changing nature of the way we consume information and fits well with the trend towards reducing environmental impact. " **Louise Veragoo, Head of NFP, Haymacintyre**

"At last some common sense as the Chancellor extends zero rating for newspapers to e-publications. Hopefully this has wider application than e-versions of newspapers and magazines and also applies to charity newsletters and the like." **Simon Buchan, Head of VAT at BHP**

"*Postponed Accounting: An issue that will only apply to some Charities, is the confirmation that, following the end of the Brexit implementation period on 1 January 2021, postponed accounting will apply to all imports of goods from overseas (both from the EU and the rest of the world). VAT will not have to be paid when goods arrive, and instead can be accounted for via the regular VAT return. This will be a substantial cash flow benefit for Charities bringing goods into the UK."* **Glyn Woodhouse, VAT partner, BDO**

A final word

“There were big headlines and giveaways in this first budget of the new decade. However, it was a budget delivered without adjustments for the impact of the Coronavirus pandemic, which could be significant and long-lasting. In addition, the measures dealt with the visible tips of icebergs, such as the homelessness provisions, without digging deep enough into the underlying issues.

The budget may have been heralded as ‘getting it done’ but we need Government to ‘get’ the sector and understand the role it plays in a thriving post-Brexit society”

Caron Bradshaw, Chief Executive, Charity Finance Group

If you would like to discuss any of the issues arising from the Spring Budget 2020, please contact our the team via the email policy@cfg.org.uk