

## **The Comprehensive Spending Review 2010: What does it mean for the voluntary sector?**

### **Briefing and analysis**

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## Introduction and context

Although the report announced on 20 October contained significant detail about the long-awaited cuts to public spending, it's still too early to paint a clear and comprehensive picture of what the impact of these decisions will be. We have the headline figures, but it will take weeks and even months before we get a better understanding of how government departments, and particularly local authorities, will implement the Government's plans.

Every department must now go away and prepare a detailed 'business plan' by the end of the year, covering actions and deadlines for the next two years. In that sense, the decisions are still partly contestable – the higher level framework has been firmly set out but decisions remain to be made about how it is practically implemented. Ongoing scrutiny in Parliament may also affect the final outcomes, including a debate in the house on 28 October.

It's important to remember too that the spending review is a plan – a four/five year plan in this case – and a lot can change in a month in politics, let alone one year or five. How it actually unfolds will depend on a complex set of factors – particularly how the economy recovers (or not), how the public / electorate reacts, whether the Coalition is strong enough to weather the storms ahead (especially the Liberal Democrats' continued support), the degree to which Labour is able to mount an effective opposition based on real alternatives, and perhaps even the threat of industrial action and protests.

In this briefing we examine some key areas of the spending review for their impact on the voluntary sector: the 'big picture' – winners and losers in the cuts to government budgets; policy decisions which affect the voluntary sector as a whole; decisions which affect local government (and by extension the voluntary sector); and decisions that affect key specialist areas of the voluntary sector. Plus we'll also look at some other things to consider from this review which affect the wider environment for voluntary organisations.

## The big picture – government 'winners' and 'losers'

There are three main ways to reduce the Government's deficit – by raising taxes, by reducing departmental spending, and by reducing spending on individual benefits. The Government has chosen to limit tax increases, which meant the burden borne by the two other categories increased. Following the review, it appears that benefits spending has taken a higher than anticipated hit, partly because of decisions to 'protect' departmental budgets for health, education, defence, and foreign aid.

According to the Chancellor, the average cut to departmental budgets was 19%, which was less than many anticipated. The developing consensus seems to be that he has been able to do this by cutting benefits payments by a further £7bn, on top of the £11bn announced in the 'emergency' budget earlier in the year. The specific benefit cuts will hit many people who are

current (or future) beneficiaries of a huge range of charities – anything from social housing tenants, to people with disabilities, to jobseekers, to families with children in care.

Despite this, no public body got off lightly in this review. Even the ‘protected’ health budget, scheduled to rise marginally in real terms over the period of the review, will be under increasing pressure because of rising costs, a massive reorganisation and a new £1bn annual contribution towards social care costs.

However, some departments appear to be ‘less-worse-off’ than others, including:

- Department of Health
- Department for Education
- Ministry of Defence
- Department for International Development
- Department for Energy and Climate Change

Some of the most drastically affected, experiencing cuts of around 25% or greater over the CSR period, were:

- Home Office
- Ministry of Justice
- Department for Environment, Food and Rural Affairs
- Communities and Local Government (including central grant for local authorities)
- Department for Culture, Media and Sport

The impact of cuts to these departments will be felt down the line within various directorates and agencies that have policy and funding importance for many charities. For example, the National Offender Management Service (part of MoJ) is predicted to lose nearly 10,000 jobs, and the legal aid budget is set to be slashed by £350m. The DCMS budget has been arguably the hardest hit of all at 30% over the period, with agencies such as the Arts Council expected to make huge savings in administrative costs of 50%. The UK Border Agency, the part of the Home Office which has policy responsibility for refugees and asylum seekers, will have to find £500m savings over four years.

The effects will go beyond axing particular funding streams from departments that support projects carried out by charities. The depth of the cuts means that it will be very difficult if not impossible to shield beneficiaries/clients from their impact. Further, capacity on the government side could reduce significantly in some areas, making it difficult to manage a coherent ongoing policy and delivery relationship with those bodies.

## Decisions which affect the voluntary sector as a whole

### Office for Civil Society

The CSR did announce some important funding and policy proposals from the Office for Civil Society, but details remain thin. Interestingly, these were mentioned near the beginning of George Osborne's speech in Parliament, and clearly branded as 'Big Society initiatives'. These were:

- **'Government will direct around £470m to support capacity building'**. It's very unclear at the time of writing what exactly this number comprises. The word 'direct' could be key – as it seems to imply that funds from dormant bank accounts, used for the Big Society Bank, form part of the figure. If that is the case this must be viewed as a very soft figure, as the amount of money that can be reclaimed from dormant accounts remains theoretical.
- **A £100m 'Transition Fund'** as part of above. The big headline-grabbing surprise for the voluntary sector in the CSR was the announcement that there will be a fund to support charities between £50k – £10m income which are vulnerable because they rely on state funding or have low reserves. Again details remain very thin; it is a short-term measure, but unclear what the fund is intended to help organisations to 'transition' to at this point.
- Other announcements under this heading were trailed in the *Building a Stronger Civil Society* paper the previous week, and even in the July Budget and earlier. These included:
  - **Funds to pilot the National Citizen Service**
  - **An endowment fund to assist local organisations** (badged Communities First, a replacement for the previous Government's Grassroots Grants programme)
  - **The Big Society Bank**
- Crucially, no firm monetary values were included in the statement; the total value of the endowment fund in particular will be crucial to local voluntary and community groups, especially given the scale of the cuts planned for local authority budgets.

### Cuts to the Charity Commission's budget

The Spending Review also announced swingeing cuts to the Charity Commission's budget. These were somewhat less than anticipated, but at roughly 27% over five years put the Commission amongst the hardest hit public bodies (at least among those which have survived – many other arms-length agencies had been culled the previous week).

To put this in context, the Commission has already effectively had its budget frozen at around £30m since 2005, with no increases to account for inflation. At the same time it has had to carry out many new responsibilities as a result of the 2006 Charity Act, which has greatly increased

demand on its resources. A number of these responsibilities remain to be completed, and a review of the Act is scheduled for next year. That review will become even more important given the financial settlement, because it will simply not be possible for the Commission to carry out the same scope of duties in the same way with these reductions to its budget.

Assuming the current CSR reductions are carried out in full, it is anticipated that further job losses will mean staff levels will have reduced roughly by half between 2005 and 2015. Although budget reductions for all public bodies were expected in this review, especially for arms-length agencies, the depth of these cuts is striking given the fact that the Government's Coalition Agreement contains a commitment to 'support the creation and expansion of charities'.

### **Confirmation of changes to Lottery shares**

There has yet to be a formal response from the Department of Culture Media and Sport on its consultation in the summer about reducing the share of Lottery revenues distributed by the BIG Lottery Fund. Regardless, the CSR affirmed Government plans to decrease BIG's share from 50 to 40 percent as proposed, with shares for arts, sports and heritage distributors taking equal amounts of the 10% share removed from BIG.

During announcements about quangos the previous week, we learned that BIG will now be answerable to the Cabinet Office, not the Department for Culture, Media and Sport. The other three distributors remain under DCMS. This is an interesting development and signals that the Office for Civil Society will now have greater influence over BIG's operations.

Oddly, there was no mention in the CSR of the funds due to be returned to the Lottery following the Olympics in 2012. Many issues remain to be sorted out which will involve large chunks of money – including what happens to funds derived from the sell-off of Olympics assets. The Government has pledged to return diverted Lottery revenue to its pre-Olympics levels after the games, but cash realised from asset disposal is another matter.

### **Some non-decisions**

**No change on VAT** – the rise in VAT to 20% from 2011, announced in the July budget, remains in place, with no announcements about reducing this burden for charities. According to the Charities Tax Group, the increase in irrecoverable VAT paid by charities will be greater than the value of the announced £100m Transition Fund.

**Gift Aid** – no firm announcements or commitments on reforming Gift Aid, short of 'a review of ways to increase philanthropic giving', with further details to be announced 'later in the year'. There also was also no extension of 'transitional relief' which some charities had been campaigning for – the £300m that the previous Government provided to effectively subsidise Gift Aid over the previous CSR period, after the basic rate of income tax was changed.

**Criminal Records Bureau checks** – the current CRB system is a source of financial and practical difficulty for thousands of voluntary organisations, especially those working with children or vulnerable people. CSR 2010 announces that the government will ‘take forward’ ideas to ‘increase the portability of Criminal Records Bureau (CRB) checks by making greater use of electronic access for employers’ but says nothing about how this will happen or by when.

## Decisions which affect local government

Arguably the ticking time bombs in the CSR as far as the voluntary sector is concerned are the massive cuts both to the communities side of the Department for Communities and Local Government budget (a staggering 60%) and the central grant that government provides for local authorities in England, which is being reduced by 28% over the CSR period.

At the same time, the Government wants to keep local authorities from increasing council tax – and in fact is providing additional money as an incentive for not doing so. Government has also greatly reduced the ‘ring-fences’ around the money it provides to local authorities – the specifications about what that money must be spent on (i.e. reducing teenage pregnancy, anti-social behaviour, etc). This is intended to empower local decision-making, but also is being presented as a trade-off to sweeten the bitter pill of cuts (the Local Government Association has been lobbying for removing ring-fences during the spending review).

The vast majority of relationships between charities and government occur at local level. The consequences of decisions made in the CSR will be complex; that will be further amplified by the Government’s drive to greater local autonomy (and correspondingly different solutions or reactions in different areas).

There are a number of possibilities to consider as a result of these decisions:

- The likelihood that direct contract and grant funding from local authorities to local voluntary organisations will be cut or put under severe pressure (i.e. new requirements to deliver more service at lower cost, or to subsidise services with charitable funds)
- That local authorities will choose to remove themselves from direct provision of services, with opportunities for charities or social enterprises to take over delivery in new areas and ways (again, however, with associated expectations of ‘cheaper’ provision)
- That local authorities will stop delivering important services entirely, without any alternative provision – greatly increasing potential beneficiary populations for local charities. For example, closing libraries, care homes, respite care centres, leisure facilities, parks, arts provision, etc.
- Turning parts of the council that deliver particular services into charities, cooperatives, or mutual organisations, but with little certainty about their long-term financial sustainability.

- That a significant number of local authorities will simply not be sufficiently competent to manage financial reductions of this scale, and may go bankrupt or collapse.

It will take some time for the cuts to local government funding to filter through to concrete decisions – probably longer than for central departments. Councils are at different stages of planning for the cuts – some have already taken proactive decisions to reduce spending, some have deferred action until the CSR, and some still do not have an adequate grasp of the challenge facing them.

### **Devolved Administrations**

As part of the CSR, the devolved administrations in Scotland, Wales and Northern Ireland received their financial settlements from Westminster, which covers spending on policy areas they have responsibility for. All three governments are scheduled for a rise in their budgets over the CSR period, but below the rate of inflation, equating to real terms cuts.

There will be scope for each of the respective governments to interpret how their budget settlement is worked out, but only for policy areas they control. For example, defence is not a devolved power – decisions on defence policy and cuts to this budget are therefore made in Westminster and devolved administrations cannot control them (and the costs are not included as part of their financial settlement either). However, health and education policy is devolved. The Welsh Assembly Government, for example, may choose to ‘protect’ the NHS budget in Wales as the Coalition Government has done, or it may choose to prioritise other areas; the decision of the Government will not take precedence.

Particularly given that neither the Conservatives nor Liberal Democrats are in power in Scotland, Wales or Northern Ireland, there will be different priorities for public spending in each devolved administration, which will have diverse implications for voluntary organisations and beneficiaries in those areas. Still, the overall level of cuts taking place nationally is likely to have an impact, especially as places such as south Wales are heavily dependent on public sector jobs, many of which are for UK-wide agencies like the DVLA or Companies House.

### **Decisions which affect specialist areas of the voluntary sector**

The changes announced in the spending review will have significant effects on many thousands of charities working in many different fields. There isn’t sufficient space here to go into detail for all of them, but some of the main areas are discussed below.

#### **Welfare reform and employment** – pages 66-69 of *Spending Review 2010*

The curbs on various benefits that were announced in the CSR are the leading edge of a fundamental reform of all welfare. Iain Duncan Smith, the Minister for Work and Pensions, has

ambitions to reorganise the plethora of different benefits for jobseekers, incapacity, housing, etc into a single universal benefit – the ‘Universal Credit’ – that would aim to be simpler and cheaper to administer. £2bn has been allocated purely to support the huge administrative process needed to bring this about, but it will take many years to become fully implemented.

The new Work Programme is in development, replacing the previous Government’s Pathways to Work scheme and other reemployment initiatives into a single programme. This will make greater use of private and voluntary sector providers in getting people into work. There will be a particular focus on long-term unemployed and those with health conditions or disabilities that affect their ability to work.

Interestingly, the CSR says that providers will be paid ‘on the basis of the additional benefit savings they secure’ which seems to be a new variation on the Conservatives’ theme of ‘payments by results’ contracts.

### **Prisons reform and offender rehabilitation** – pages 55-56 of *Spending Review 2010*

Both the Home Office and the Ministry of Justice were heavily cut in the CSR, raising questions about the ability to deliver planned reforms to the prisons system in particular. Big reductions are planned in prison places and probations staff, and the number of courts. More people are likely to be given alternative punishments in the future as part of the reform package and to reduce costs.

There will be increased opportunities for voluntary and private sector providers to deliver services for prisoners and offenders, based on a ‘payment by results’ contracting model, where reductions in reoffending rates are used to determine the performance of the provider and to calculate the amount paid under the contract.

There is an ominous statement in this section that will be of interest to any organisation providing advice or legal aid in particular: ‘The Government will consult on major reforms to the legal aid system to deliver access to justice at lower cost to the taxpayer. This will involve taking tough choices about the types of case that should receive public funding, and focusing support on those who need it most. The reforms will also increase competition in the market and reform remuneration for providers to ensure the legal aid system is effective and affordable.’ It has been reported that this will involve reducing the already under-pressure budget for legal aid by £350m.

### **Social housing** – page 49 of *Spending Review 2010*

The Government claims that its reforms to social housing and housing benefits will enable 150,000 new social housing places. It plans to do achieve this by introducing greater means testing in the provision of social housing, and a cap on the amount of housing benefit that can be claimed. This will also include changing the rates at which rent is paid, stating that ‘Social landlords will be able to offer a growing proportion of new social tenants new intermediate rental

contracts that are more flexible, at rent levels between current market and social rents.' Younger tenants will also be expected to live in shared accommodation for longer – up to the age of 35.

At the time of writing, charities and many MPs across the political spectrum were expressing their opposition to the proposals. It is feared that the cap on housing benefit in particular, will force poorer tenants out of expensive urban areas.

### **Social care** – pages 43-44 of *Spending Review 2010*

On first assessment, social care appears to be one of the 'winner' policy areas in this review. The section for the Department of Health says that there will be 'an additional £1 billion a year for social care through the NHS, as part of an overall £2 billion a year of additional funding to support social care by 2014-15'. This phrase seems slightly open to interpretation; it is unclear whether this money is in fact 'new' or is simply being redirected from other health budgets, further highlighting that the relative 'protection' for the overall health budget conceals serious internal pressures.

The document also says that the current Department of Health grant to local authorities for social care will increase by £1bn by 2015, but that this will be merged into the local authority main grant. It appears that the ring-fence for this money will be removed – along the lines of much of the rest of the grant settlement for local authorities. This begs the question of whether this money will continue to be spent on social care in all authorities, at similar levels, or whether they will choose to use it in other ways.

### **Extension of personal budgets** – page 33 of *Spending Review 2010*

The CSR document announces that 'Government will look to significantly extend the use of personal budgets across a range of service areas including special education needs, support for children with disabilities, long term health conditions and adult social care', but there is no further detail or discussion of how this will work in each case.

Policy in this area has been long in development but slow to be implemented. Many charities in health and social care have been active in developing it, but there are potentially huge implications for how those charities are funded; personal budgeting is really about a shift from paying a provider for its services, to giving the recipient of services the money to purchase what they need from whatever source they deem best.

### **Arts and Culture** – pages 65-66 of *Spending Review 2010*

Government funding for the arts has suffered some of the deepest, perhaps the deepest, cuts in this review. There will be huge financial pressures on the Arts Council, which distributes both exchequer and Lottery funds for the arts – it is being asked to reduce its budget by 30%, whilst limiting cuts to its 'front-line' activity to 15%. The Arts Council's Chief Executive said the cuts would have significant impact on the cultural life of this country'.

However, the Government did retain free entry for museums, and the museums budget has been reduced less drastically than many other areas.

### **Environment** – page 64 of *Spending Review 2010*

Defra suffered some of the heaviest cuts in this review, and these may be amplified by changes to arms-length bodies announced the previous week. Many agencies linked to Defra, such as the ‘Advisory Committee on Organic Standards’ have been abolished. Arguably one of the most important, the Forestry Commission, is scheduled for ‘substantial reform’. The announcement axing quangos stated that the details of the reform of the Forestry Commission would ‘be set out by Defra later in the autumn as part of the Government’s strategic approach to forestry in England.’

It is clear that as part of reducing spending and debt the Government wants to reduce its ownership of its assets. Much of this is land which has a variety of environmental benefits and purposes. Green and conservation groups have already been speaking out about the potential damage that may result if these assets are sold for development.

### **Other things to consider**

**Efficiency savings** – the CSR sets out massively ambitious goals for efficiency savings across the piece – at least 33% in ‘administration costs’ for every department. Even the ‘protected’ health budget will have to realise a whopping £20bn savings, at a time when the Government is considering what is perhaps the most radical reorganisation of the NHS since it was created.

**Abolition and merging of quangos** – don’t forget too that the previous week the Government axed hundreds of quangos. The functions of many of them will be ‘merged into the relevant departments’. This will add administration costs to departmental budgets, at a time when they are being expected to squeeze out those very costs.

**Cuts to public sector staff** – the CSR envisages losses of 490,000 public sector workers over the period. In addition, a huge number of private sector jobs are dependent on public sector spending that being cut. The impact on charities providing help to jobseekers, or volunteering opportunities (for people made redundant) may be considerable. Also, there will be fewer people in public bodies to liaise with – or those that remain may be over-stretched or performing many different roles.

## Conclusion

The ink had hardly dried on the Spending Review report before charities, politicians, unions and campaigners had moved into action to try and shape (or block) its implementation. This is really only the end of the beginning of the story of the greatest cuts to public spending in Britain since the 1920s.

DSC will continue to comment and analyse developments which affect the voluntary sector as they happen, and to be involved in key debates as they progress.

There are any number of ways that you can stay informed about current developments – including at [www.dsc.org.uk](http://www.dsc.org.uk) and by signing up for our free enewsletter. Below are some free resources that we find particularly useful:

- [www.theyworkforyou.com](http://www.theyworkforyou.com) free service which tracks statements in Parliament by ministers on topics that you choose
- [www.parliament.uk](http://www.parliament.uk) Parliament's official website
- [www.epolitix.com](http://www.epolitix.com) free website with articles and information from Dods, a long-standing provider of political information
- Channel 4 news – in-depth current affairs programming, often with appearances from Ministers, officials, and charities
- BBC Newsnight – as above
- BBC Radio 4 – Today programme (morning) and PM (evening) – as above
- Local newspapers – for information about developments in your local area
- The newsletter of your local Council for Voluntary Service – for local charity information
- Email bulletins (often free to register for) from membership organisations such as NCVO, Acevo and Navca, and from other support organisations working in your particular policy area