DSC Consultation Submission

HM Treasury Spending Review 2025

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Executive summary of recommendations

We have provided more detail and evidence in our submission below, on pages 4-12. This submission includes recommendations for HM Treasury and Part Two of the Spending Review, but also some finance-related policy decisions for government generally that would boost the resilience and effectiveness of the Voluntary, Community and Social Enterprise Sector (VCSE). VCSE organisations improve the lives of millions of people across the UK, support critical public services that people rely on, and contribute billions to the economy.[i]

A summary of our recommendations for HM Treasury and the government follows:

1. **Charity regulators:**

    - **Ensure real terms increases to the Charity Commission budget for the rest of the Spending Review period**, with additional funding allocated to allow the Commission to enhance and update the register of charities, so that it can take advantage of the latest digital technology, data science and research. Ensure sufficient consequential allocations for the devolved nations to provide real terms increases for OSCR and CCNI.

2. **Local government:**

    - **Provide further emergency financial support to stabilise councils** currently under Section 114 notices or at risk of issuing them, to prevent further deterioration or collapse of local services, social capital and social safety nets.
    - **Put local government finance on a stable footing with a multi-year finance settlement**, to give them more stability in budgeting.
    - **Provide sufficient budgetary increases for local government to allow them to uplift contracts and grants for VCSE suppliers** in line with inflation.
    - **Ensure robust mechanisms for local voluntary sector engagement with local government and local health agencies**, as part of the government's devolution plans.

3. **Funding:**

    - **Allow the National Lottery Community Fund (TNLCF) to implement its new strategy, and commit to not interfering in the management and funding decisions of the lottery distributors**.
    - **Investigate the rate and amount of asset sales on the Olympic Park and take action to speed this up**, to reimburse the lottery distributors more quickly for the lottery revenues that were diverted for the 2012 London Games.
    - **Reverse the 2013 amendment to the Companies Act which eliminated the requirement for companies to report charitable donations in their annual reports**.

- **Implement a long-term successor scheme to the UK Shared Prosperity Fund (UKSPF), which matches the amount of funding lost from leaving the EU, as was originally promised.**
- **Work with the voluntary and community sector and devolved administrations in designing any UKSPF replacement scheme.**
- **Engage members of the Community Wealth Fund Alliance (CWFA), local Community Foundations and other local funders to devise the most effective systems and methods for distributing dormant assets funds via a Community Wealth Fund (CWF).**
- **Ensure that dormant assets funding distributed by a CWF(s) is accountable to local communities and used for local priorities, not central government policy.**

4. Taxation

- **Delay the changes to Employer National Insurance Contributions (ENICs), to allow trustee boards time to plan and charities to secure income to pay the extra costs** (for example, until the next financial year, or on a phased-in basis).
- **Alter ENICs thresholds further, to reduce the impact particularly on medium-sized organisations,** which are already under huge pressure because of the local government financial crisis.
- **Provide sufficient funding for local governments and Integrated Health Boards to uplift contracts with VCSE suppliers** so that the increased employer NI contributions can be covered without reductions in vital services that people depend upon.

1. Introduction

At the Autumn 2024 Budget, we learned that the Government is doing a Spending Review in two phases. This is unusual but essentially means that following the General Election, government departments had their budgets re-set for 2024/25 and set for 2025/26, with an overall 'spending envelope' set for the remainder of the Parliament.

The Treasury has opened a portal for submissions until 9 February 2025. They are seeking "comments on existing spending priorities and suggestions for new ones…proposals that outline funding priorities and explain the rationale, costs, benefits, and feasibility". They ask that "submissions should be evidence-based, providing clear arguments on how they align with the objectives of the Spending Review, such as delivering value for money, supporting economic growth, and achieving strategic outcomes across government."

The Directory of Social Change is a charity that supports tens of thousands of other charities and voluntary organisations across the UK each year, by providing information, training, publications, research, policy and campaigns. We offer this submission to the Spending Review because we believe that the activities of charities and other voluntary organisations are crucial to all of the government's missions and to the overall social welfare and economic productivity of the whole country. Therefore, it's vital for the government to take their needs and value seriously when making public policy and spending decisions.

2. Context

The civil society sector in the UK includes over 170,000 registered charities, and many more social enterprises, unregistered voluntary organisations and community groups.[ii] Charities are governed by nearly 1 million voluntary trustees, mobilise over 14 million volunteers annually, and employ over 1 million people, accounting for 3% of the UK's workforce.

The sector serves people across every conceivable area of public services and plays a central role in organising and mobilising people in civic action across the country. Its work is vital for delivering on the government's key missions across all areas. To take just a few examples: air ambulances, volunteering and fundraising in hospitals, hospice care, medical research, social housing, environmental conservation and green energy, youth services, child care and support for families, support for veterans and their families, education, skills and employment, offender rehabilitation, and working to prevent and support the survivors of violence against women and girls.

The sector has an income of £69.1bn and a comparable level of expenditure (£65.4bn).[iii] This activity plays a role in economic growth in its own right, by employing people who pay taxes and national insurance, and supplying/purchasing goods and services, but more importantly by supporting a healthy, educated and productive population, a clean environment, and livable communities.

Collectively, charities and voluntary organisations provide £16.8bn in services to the public[iv], much of the cost of which would need to be met by the state if they didn't exist. In this sense, the sector offers incredible value for money for the taxpayer, because it prevents many people from needing services from the state (or more complex services), and it also mobilises philanthropic and volunteer resources to support those services.

The sector has faced unprecedented financial disruptions and challenges in recent years, particularly over the past decade. Organisations have proved resilient but the financial challenges for charity leaders and boards of trustees are arguably greater now than they have been at any time in recent memory. These include, but are not limited to:

- **Competitive tendering** becoming the default setting for public sector procurement, involving byzantine tendering bureaucracy that wastes capacity, particularly for local small and medium-sized organisations, which are forced to compete with larger private sector firms to deliver services like social care, youth services, and mental health support.
- **Austerity**, when many sources of public funding dried up almost overnight, and local government budgets were slashed. This led to service contractions, restructuring and closures in local charity and voluntary sector organisations across the country. The human impacts were widespread but included more people being homeless, winding up in the criminal justice system, or not getting treatment for things like substance abuse.[v]
- **Economic and political uncertainty caused by Brexit**, which also particularly disrupted or ended funding streams that supported certain areas served by parts of the charity sector, such as employment and skills, environment and conservation, making it harder to achieve a skilled workforce and more people in work.
- **The pandemic**, which destroyed charity fundraising and trading income streams almost overnight, and disrupted organisational working practices and service delivery, requiring constant change management from charity staff and trustees.
- **The cost-of-living crisis,** which rapidly increased pressure on many charitable beneficiaries, particularly the poorest in society,[vi] and costs on charities themselves, while also putting pressure on the supply of volunteers which they rely on.

The effects of these challenges are long-term and won't be solved overnight. Some have also proven to be opportunities (for example inspiring new ways of working and service delivery). The sector has proved to be resilient and adaptable, but the repeated financial pressures and the pressure of constant change management have taken their toll. Even large, well-resourced charities like Leonard Cheshire and Macmillan Cancer Support are having to make hundreds of redundancies, which will impact the lives of disabled people and those living with cancer.

Many organisations providing vital services have had their financial resilience hollowed out over recent years and are now at the point where further shocks could be existential. It is therefore even more urgent that central government considers the sector in its policy-making moving forward, particularly any unintended negative effects of policy or legislation.

It is also critical that government involves the sector in the government machinery and policy networks tasked with delivering its missions, to ensure their success for everyone.

We would urge the government and HM Treasury to recognise not just these pressures, and what can be done to help the sector adapt and thrive, but the potential negative effects on the public finances, public services, and the longer-term health and well-being of the population if current trends continue unaddressed. This submission describes matters of public spending and finances that are important to the sector writ large.

3. Critical public bodies for civil society

Some charities have important relationships with central government departments, Non-Departmental Public Bodies and other agencies, depending on who they serve and their geographical reach. This is not always or predominantly about funding relationships but about feeding into policy development or providing evidence to policy-makers. But two types of public bodies are crucial for most or the majority of organisations, to some degree:

3.1 Charity Regulators (CCEW, OSCR, CCNI)

The Charity Commission for England and Wales (CCEW) is an independent regulator with quasi-judicial powers, and the registrar of charities for England and Wales. We would argue that it is the single most important public body for the charity sector in England and Wales (with the Office of the Scottish Charites Regulator (OSCR) and the Charity Commission for Northern Ireland (CCNI) having similar importance in those areas). Since the financial crash of 2008/09 and especially after 2010, cuts to the Charity Commission’s own budget have resulted in staff redundancies, consolidation of offices and reductions in the level of services it can provide to charity trustees.

Although funding levels stabilised in recent years, they need to keep pace with rising costs and the level of support needed from the charity sector. Sufficient funding is crucial to enable Commission staff to respond swiftly to registration applications, to offer advice and guidance to trustees, and to respond in a timely manner to requests for critical permissions like selling land or changing charitable purposes, particularly in the aftermath of ongoing financial pressures for many organisations. Accessible help and good response times are part of a preventative approach that can provide value for money by resolving problems more quickly, reducing the risk of small problems turning into bigger ones, and avoiding costly delays in decision-making by charity trustees.

The Commission also maintains the online register of charities, which is a primary source of data and information for the public and policy-makers about charities. It needs sufficient investment to keep the register up-to-date and to take advantage of advances in data science and digital technology, for example the efficiency gains of being able to scan digital documents like pdfs and translating this into data that can be analysed and used. The Commission is a small regulator charged with overseeing a vast sector, which collectively makes a huge contribution to the economy and to public services. Relatively small amounts of investment can make a big impact.

Recommendation:

- **Ensure real terms increases to the Charity Commission budget** for the rest of the Spending Review period, with additional funding allocated to allow the Commission to enhance and update the register of charities, so that it can take advantage of the latest digital technology, data science and research. This would provide value for money by helping the Commission to regulate more effectively and proactively, and to improve the transparency of charities and available information about them for the benefit of donors and the general public. Ensure sufficient consequential allocations for the devolved nations to provide real terms increases for OSCR and CCNI.

3.2 Local Government

The vast majority of charities are SMEs in financial terms and have a local remit or reach. Over 130,000 of the more than 170,000 charities registered with the Charity Commission for England and Wales have annual incomes of less than £100,000.[vii] Though financially small, they mobilise volunteers and provide critical services to local communities. Local governments and local health bodies such as Integrated Care Boards (ICBs) are the public sector organisations where the largest number of charities will have financial and policy relationships with the state.

The Local Government Association (LGA) recently concluded that "service spending in 2022/23 was 42.1 per cent lower than it would have been had service spend moved in line with cost and demand pressures since 2010/11. This means that councils have made £24.5 billion in service cuts and efficiencies over this period." It goes on to state that "due to inflation and wage pressures alongside cost and demand pressures, English councils face a £2.3 billion funding gap in 2025/26, rising to £3.9 billion in 2026/27. This is a £6.2 billion shortfall across the two years."[viii]

The financial pressures on local authorities are also having devastating effects on local charities and voluntary sector organisations and their provision of services to people in the community. The increasing number of local governments filing Section 114 notices is devastating the local charity sector in those areas, with contracts cancelled overnight and demand from local authority service cuts spilling on to already strained local charities.

For example, both Nottingham and Birmingham have had to make massive budgetary savings which have led to deep cuts in grant support for VCSE organisations, as well as reductions in provision by the local government for things like youth services.

DSC's data on local government grant spending to VCSE organisations shows that Nottingham City Council provided £1.9m in grants for FY 2021/22, £1.5m in 2022/23 and £1.2m in 2023/24. For FY 2024/25 the council's budget cut grants to local charities and arts organisations entirely, meaning a cut of £1.2m from one financial year to the next.

Recommendations:

- **Provide emergency financial support to stabilise councils currently under S114 notices** or at risk of issuing them. We aren't experts in this area but it's self-evident that allowing the current situation to deteriorate further will cost more in the long-term, as social capital and social safety nets are destroyed in these communities.
- **Put local government finance on a stable footing with a multi-year finance settlement**, to give them more stability in budgeting. Repeated short-term finance settlements do not provide value for money because they inhibit long-term planning.
- **Provide sufficient budgetary increases for local government to allow them to uplift contracts and grants for Voluntary, Community and Social Enterprise (VCSE) suppliers in line with inflation.**
- **Ensure robust mechanisms for local voluntary sector engagement with local government and local health agencies, as part of the government's devolution plans** and health service reforms. This helps provide value for money by ensuring that local governments understand which organisations are working in their area, what communities need, how they can reach into parts of the community that need support, and how to design effective services that provide value for money.

4. Funding

The biggest share of charity sector income comes from the public, via fundraising and trading income. This is greater than the amount received from the state via grants and contracts, which has decreased substantially over the past 15 years, but remains a key component of the overall picture. Much smaller proportions of sector income are provided by companies, charitable foundations, the National Lottery, and previously the European Union. Although these sources are relatively small, they play a vital role.

There is a role that HM Treasury and the government can play in facilitating financial resources to civil society without adding to public spending or debt. For example, it is critical that this government takes action to boost the environment for public giving, by offering tax incentives and continuing to support and improve Gift Aid.

There are other measures, outlined below, which government could commit to that in general would boost sources of income and the resilience of VCSE organisations, while incurring little to no additional public expenditure.

4.1 National Lottery Community Fund

The National Lottery is a success story for the UK and continues to be a critical component of the funding environment for civil society organisations large and small. In addition to supporting arts, sports and heritage, the community element distributed by The National Lottery Community Fund (TNLCF) is vital. It gives in the region of £500m – £700m per year, predominantly in grants, and predominantly to smaller, local organisations.

After several years of leadership change and strategic review, a new strategy is now in place. The government should respect the independence of the lottery distributors, seek to boost its revenues and allow this strategy to be implemented.

Previous governments have intervened in the Lottery's operations with disastrous consequences for the charity sector and communities. In the run-up to the 2012 London Olympic Games, £425m of lottery revenues were diverted from community grants to fund the development of infrastructure and housing on the Olympic Park.

Successive governments, including the last Labour administration, promised that this would be refunded by selling the assets after the games. Yet over a decade on from London 2012 very little has been refunded, and asset values are locked up in long-term leases that will never deliver refunds to the lottery distributors (for example, the Olympic Stadium).[ix]

Recommendations:

- **The government should allow the National Lottery Community Fund to implement its new strategy and should commit to not interfering in the management and funding decisions of the lottery distributors**.
- **The government should investigate the rate and amount of asset sales on the Olympic Park and should take action to speed this up to reimburse the lottery distributors**. We believe this could be done in a way that does not add to public debt. At a minimum, the Secretary of State for Culture, Media and Sport should provide a progress update.

4.2 Company Giving

There are good examples of companies supporting important initiatives and organisations in the UK, but the potential to do more is huge. DSC research shows that companies provide less than £600m to UK-based causes per year[x].

Many companies have an associated foundation, which is a more transparent and we would argue more effective way for them to demonstrate corporate social responsibility and support people and communities. Companies also give donations to organisations individually via their own grant programmes, partnerships, and via in-kind support (for example employee volunteering or pro bono support, or with goods and services).

The Coalition Government took the bizarre decision to scrap rules that required companies to declare their cash donations to social causes in their accounts. As a result, it has become increasingly difficult to gather robust data on the level of company support going to community or charitable causes in the UK.

Recommendation:

- **The government should reverse the 2013 amendment to the Companies Act, which eliminated the requirement for companies to report charitable donations in their annual reports**. Restoring mandatory reporting of corporate charitable giving would support better data and transparency, and encourage companies to increase their philanthropic contributions to benefit people and communities.

4.3 Community Wealth Fund

Central government has the legislative and administrative power to help bring more financial resources and philanthropic activity to the local level. One aspect of this should involve the dormant assets scheme, which has distributed £1bn[xi] from reclaimed bank accounts and other financial products since its inception in 2011.

Dormant Assets are not tax revenues and while their use is governed by legislation, they should not be directed by an individual government for their own policy agendas. However, government can provide the legislation and administrative infrastructure to enable them to be distributed fairly and in a way that empowers communities. Most recently, this involved passing legislation to make Community Wealth Funds eligible for receiving distributed funds.

The government has announced that £350m of dormant assets funding will be allocated between 2024-28 in England with consequential allocations for the devolved nations, including £87.5m for England set aside for Community Wealth Funds.[xii] However, the design and priorities of CWFs remains unclear, and we are waiting for a response to a previous 'technical consultation' on this.

Recommendations:

- **The government should engage members of the Community Wealth Fund Alliance (CWFA), local Community Foundations and other local funders to devise the most effective systems and methods for distributing dormant assets funds via a Community Wealth Fund (CWF).**
- **The government should ensure that dormant assets funding distributed by a CWF(s) is accountable to local communities and used for local priorities, not central government directions.**

4.4 UK Shared Prosperity Fund

The EU provided a relatively small but important proportion of funding for charities and voluntary organisations, particularly those working in certain areas like employment or the environment.[xiii]

Since 2016, successive governments promised to replace EU funds with a UK Shared Prosperity Fund (UKSPF). This took years to introduce, and since it was put in place it has suffered from instability, delays and reductions in the amount of funding compared to what was originally was promised. Most recently, the Autumn Budget reduced the total value of the fund by 40%, to £900m.

Recommendations:

- **The government should implement a long-term successor scheme to the UKSPF which matches the amount of funding lost from leaving the EU, as was originally promised.**
- **The government should work with the voluntary and community sector, and devolved administrations, in designing any UKSPF replacement scheme.**

5. Taxation

There are a range of detailed tax-related measures that could boost the resilience of charities and voluntary organisations, outlined in submissions from the Civil Society Group and others, which DSC supports. We would like to add our view on the recent changes to Employers National Insurance Contributions (ENICs) announced in the Autumn Budget.

5.1 Employer National Insurance Contributions (ENICs)

The Government's decision in the Budget to change the rates and thresholds for Employer National Insurance Contributions (ENICs) has been estimated by the National Council of Voluntary Organisations (NCVO) to cost the charity sector £1.4bn[xiv]. This is roughly the equivalent to what is claimed in Gift Aid every year. Especially at this time, with organisational reserves depleted following the pandemic and cost-of-living crisis, these changes are already resulting in significant negative impacts, and risk damaging the government's 'reset' with civil society.

It is true that the ENICs changes will not significantly affect the majority of civil society organisations, which are small and have few or no staff. However, the changes are already damaging the financial resilience and service provision of not just larger organisations, but thousands of medium-sized, local and regional charities delivering critical services for the public.

Evidence is emerging that the negative effects include staff redundancies, withdrawal of existing or planned services, handing back public sector contracts, or even forcing closure of whole organisations. The short notice of the changes, with less than six months to adjust, has thrown budget-setting and strategic planning into chaos for many organisations, increasing pressure on already challenged boards of trustees and executive teams.[xv]

We understand that the government has so far rejected calls for charities to be exempted from the changes to ENICs or to be reimbursed in some way[xvi]. We urge the government to reconsider, and at a minimum to introduce mitigations that lessen the impact, to prevent long-lasting damage to organisations and the people that depend on them. This could include one or several of the following:

Recommendations:

- **Delay the changes to ENICs to allow trustee boards time to plan and charities to secure income to pay the extra costs** (for example, until the next financial year);
- **Alter ENICs thresholds further, to reduce the impact particularly on medium-sized organisations,** which are already under huge pressure because of the local government financial crisis;
- **Provide sufficient funding for local governments and Integrated Health Boards to uplift contracts with VCSE suppliers** so that the increased NI contributions can be covered without reductions in services.

6. Conclusion

DSC is one of the organisations with the widest reach into the charity and voluntary sector, with a long-established track record of providing research and data about charities and funding for the sector. We play a key coordinating role in the Civil Society Group, a collaboration of over 80 representative organisations with a wide range of expertise and reach in the sector.

We are happy to provide further information and clarification on all aspects of this submission and the Spending Review, and to engage with Treasury officials and ministers as the Spending Review process moves forward. Please see www.dsc.org.uk for more information and the contact details at the top of this submission.

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[iii] National Council for Voluntary Organisations, Civil Society Almanac, www.ncvo.org.uk, 2024.
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[vi] Citizens Advice Data Dashboard, Trend of key cost of living issues since 2014, as at November 2024.
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[xv] Charity Finance Group, Charity Finance Group Survey reveals deep concern over rise in ENRICs, www.cfg.org.uk, 3 December 2024.
[xvi] National Council for Voluntary Organisations, Chancellor response to NCVO open letter on ENICs, www.ncvo.org.uk, 26 November 2024.