EAST SUSSEX VCSE ALLIANCE

Autumn budget 2024: Impact, implications and solutions for Alliance organisations

Members of the Alliance provide a response to partners of the national insurance and national minimum wage elements of the budget. They highlight the impacts, implications, potential solutions and ask of partners to mitigate against resulting financial challenges.

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Contents

1. Executive Summary

Executive members agreed to provide an Alliance-wide response to partners of the National Insurance (NI) tax and National Minimum Wage (NMW) elements of the budget announced 30th October 2024. Members undertook a survey to highlight the impact these two increases will have on their organisations, staff and service users.

The financial implication is stark – these two changes will cost Alliance members an extra £2 million pounds per year.

These costs can't be covered by government exemptions or increases, existing income or contract values, so will need to be funded by changes to financial planning, staffing and service delivery.

Impacts will be far-reaching; staff redundancies, service closure, unsustainable use of financial reserves, lack of capacity for partnership working – these measures put the voluntary sector at risk, which in turn affects the support it provides to the people of East Sussex.

It is also likely to have wider implications across partners, statutory services and the system.

Alliance members have suggested practical examples of potential support they ask statutory partners to consider, including:

1. Consider annual uplift of contract values to mitigate additional staffing costs.
2. Make quarterly claims retrospectively against NI uplifts.
3. Manage commissioner's expectations and discourage additional requests for information.
4. Adapt contractual and/or grant funded KPIs.
5. Reconsider exemptions.
6. Review Terms & Conditions.
7. Reduce data requests.
8. Strategic and collaborative cross-sector approaches to risk sharing.
9. Continued lobbying of government and provide assurances this is a one-off action.

This evidence will feed into the framework for a 'State of the Sector' research and report being undertaken in 2025. Partners across the system have committed to jointly funding and commissioning this research.
We want to collaborate with partners to mitigate the impact of these additional staffing costs.

2. Autumn budget 2024

Changes announced in the budget include the following changes to staffing costs:

Business taxes

- Companies to pay National Insurance (NI) at 15% on salaries above £5,000 from April, up from 13.8% on salaries above £9,100
- Employment allowance - which allows smaller companies to reduce their NI liability - to increase from £5,000 to £10,500

Wages

- National Minimum Wage (NMW) for over-21s to rise from £11.44 to £12.21 per hour from April 2025
- Rate for 18 to 20-year-olds to go up from £8.60 to £10, as part of a long-term plan to move towards a "single adult rate"

3. Survey and context

We asked Alliance members to complete a short survey, and where possible provide an example.

56% (14) Alliance organisations responded to the survey. We asked about:

- Financial and sustainability impacts
- Service delivery impacts
- Impacts on services users/recipients
- Potential solutions/responses

Despite these budget changes expected to add to the financial and organisational stress of Alliance organisations, many of our members are already working beyond capacity due to additional demands on their services and therefore were unable to prioritise undertaking the survey.

Their size and the number of staff employed by Alliance members varies, with some smaller organisations employing 14 people, while larger organisations employ hundreds of staff.

Research undertaken by IVAR in 2021 - 'The contribution and value of the VCE in East Sussex' estimates that:

'Although the mean average income of registered general charities in East Sussex is £191,000, the median income is only £14,000. This illustrates that, although there are some large VCSE organisations in East Sussex, the vast majority are small.

Indeed, 82% of East Sussex registered general charities are micro or small (income of less than £100,000), 15% medium (income between £100,000 and £1m) and 3% large (income between £1m and £10m)'

The smaller the organisation, the less resilient to withstand additional these staffing costs, which is compounded by cuts to existing contracts and decline in alternative funding sources.
This also disproportionately impacts on organisations which employ people in the care fields because of levels of pay, part-time working and employees previously not in scope for NI.

This lack of resilience puts the voluntary sector, and the services it provides, at risk. The risk is further exacerbated if these costs are not one-off costs but likely to be repeated every year.

4. Headline results

Results show these changes are going to have a significant financial impact on Alliance members, and wider East Sussex VCSE local voluntary sector organisations and the county's VSCE Sector as a whole. This will affect individual organisational structure, staffing, resilience and service delivery. In addition, there is the impact on costs of maintaining differentials in pay structure within organisations.

There is also likely to be capacity implications regarding partnership working and collaboration in areas such as service delivery and representation.

These additional costs will have to be sought from existing budgets, savings and fundraising, as they are not covered by existing income or contracts.

Headline results show the extrapolated impact across 25 Alliance members, based on results of 14 members who undertook the survey. See section 10 for details.

The following headlines demonstrate the extrapolated gross financial impact across 25 Alliance members*.

Total cost of both NI and NMW changes across 25 members

£2,000,000 – *additional staffing costs of two million pounds per year.*

These costs are not covered by existing income or contract values

There is also the impact on costs of maintaining differentials within pay structures

The gross financial impact of NI changes across Alliance members

£1,500,000 *additional NI costs of one and a half million pounds per year*

- *One organisation will have to pay an additional £594,000 per year in NI costs*
- *This rise represents 15% of annual turnover for one organisation*
- *This rise represents 4% of annual staff and related on-costs for one organisation*

These costs are not covered by existing income or contract values

There is also the impact on costs of maintaining differentials within pay structures

The gross financial impact of NMW increase across Alliance members

£531,310 *– additional NMW of over half a million pounds per year*

- *One organisation will have to pay an additional £300,000 per year due to NMW increase.*
- *This rise represents 6% of annual turnover for one organisation*

These costs are not covered by existing income or contract values

There is also the impact on costs of maintaining differentials within pay structures

*****See Section 10 for a summary of individual responses from 14 Alliance organisations and extrapolated figures.

5. Impacts

These budget/staffing changes are part of the significant financial pressure facing these organisations, who will have to make efficiencies as their income or contract values are not increasing to compensate for the increases.

Current measures include the following; however, once organisations have completed their 2025/26 planning, more organisations may have to consider introducing the below measures and others.

At the time of writing:

- Two organisations have reduced their staff count, a total of four staff members.
- Four organisations are reviewing staffing levels – more reviews expected once 2025/26 planning completed
- Three organisations will be unable to offer staff a pay rise in 2025
- Organisations will review their service offer; whether to reduce services, the hours services available, provide less support and see fewer clients – more reviews expected once 2025/26 planning completed
- Longer waiting times for people to use these services – organisations recognise the need to monitor this, as the impact will show over a period of time
- Less funding to spend on essential services
- Although organisations will ensure services are safe, some elements might be at risk due to need to make efficiency savings which might reduce quality
- Organisations may have to increase the price of paid services – this will be monitored over time and impacts might take place across the 2025/26 financial year
- Organisations are at risk of increased staff turnover (and associated costs, challenges, risks)

"We will try to ensure that our services and recipients are not affected by the increases"

"I'm dreading the financial impact"

6. Wider implications

6.1 Survey response rate

The survey response levels are an indication of Alliance member's capacity, who are managing both financial and staffing crisis currently being experienced due to cuts to funding and the impact of the budget. In other cases, members have developed proposals for job cuts etc. and these are subject to Governance and/or HR Consultations before they could be confirmed at the time of the survey.

"Sorry if I have not been very engaged. Been managing funding and staff crises"

6.2 National Minimum Wage (NMW) Changes

The NMW changes will impact the care and retail operations of the VCSE heavily; many employees working in these sectors are traditionally lower paid and will be impacted by the rise in NMW and have their pay increased.

Where organisations have a Care Act duty to clients, for example being commissioned to deliver an assessed level of support, these are not able to reduce delivery to mitigate against rising staffing costs because of the legislative duty involved. One implication of this could be that providers have to withdraw from delivery as they are unable to mitigate against this risk.

The changes to employees previously receiving lower wages and often working part-time means raising their hourly rate increases the number of employees in scope for National Insurance payments, particularly as the employer threshold has been reduced.

This fundamentally changes the relationship of National Insurance to wage costs.

6.3 Differentials in pay

The rise in the NMW adds an additional pressure for pay across the organisation, as this reduces the differential between lower and higher paid roles. To recognise the responsibility of more senior/responsible roles, this could mean increased salary costs across the organisation, not just for those impacted by the NMW.

It is also creating wage pressures and therefore, the cost implications to an organisation are not just the increased cost of NMW but also the pressure to maintain differentials. Failure to recognise greater responsibilities in more senior role increases the risk of service disruption and recruitment costs associated with higher staff turnover. The survey has not captured these additional costs on Alliance members, but these will only exacerbate the pressures and implications identified here.

6.4 Influencing future budgets

Alliance partners understand that sector lobbying at the national level has not effected significant change. There is a concern that the Government could adopt a similar strategy in future budgets, and we wish to continue communicating the hugely damaging impact of these decisions on our sector, and ultimately the work we can do in support of vulnerable people in our communities. We need to reinforce the impact these changes will have on the voluntary sector, and that National Insurance increases cannot be seen as an ongoing revenue source for the Chancellor.

Organisations may be able to absorb these costs this year and/or mitigate via job cuts etc., but any further increases risk causing a wholescale collapse VCSE sector provision and the permanent loss of support to vulnerable individuals and communities.

6.5 Timeframes for HR issues and organisational structure

The impact of these changes put additional pressure on HR and/or Governance processes, who will need adequate timeframes to comply with legislation/timeframes to restructure teams/review services, to ensure financial viability.

6.6 Impact across sectors

The experience of the VCSE sector mirrors that of other commercial employers, who are also managing the threats to solvency, halting recruitment and introducing wage freezes – these issues are being reflected in national business surveys.

7. Solutions

Alliance members were asked to provide solutions that they might consider within their organisations to help mitigate against the increase in staffing costs. Solutions include:

- Halt staff recruitment, reduce staff hours, review staff levels, salary reviews, pay freezes
- Reduce office space and/or seek co-location opportunities.
- Close or reduce services and support groups
- Consider more cost-effective delivery models e.g. online or group sessions, increased use of volunteers, develop digital tools and greater use of technology
- One-off use of limited financial reserves – not an option for many alliance members and for those it is, this is an unsustainable funding model for organisations
- Lobby funders to increase contract values - funders increase their give so charities can continue as they are, or 2) charities reduce staffing and amend their offer in line with reduced staffing levels (e.g. annual uplifts in contracts include NI rise or make a retrospective quarterly claim against NI uplift)
- Include voluntary sector in discussions with government about potential NI contribution relief (in addition to the hospice sector).
- Though absolutely not presented as a solution, members indicated that some further intensification of workload is taking place – often self-initiated by frontline staff, rather than intentional management decision-making - which, while offering very short-term capacity, is impacting on physical and mental wellbeing of staff and contributing to higher absence rates.

8. Next steps

This evidence will feed into the framework for a 'State of the Sector' research and report, due to be undertaken in 2025. Partners across the system have committed to jointly funding and commissioning this research.

This work will build on previous research undertaken by IVAR in 2021: 'The Contribution and Value of the Voluntary Sector in East Sussex' – read here.

The Alliance has a priority workstream for Sector Resilience and insights regarding the impact of changes to national insurance and national minimum wage and the sector research will inform this group's workstream over the next the next three years.

9. Our Ask

Despite the resulting difficulties the autumn 2024 budget has caused and will continue to cause the voluntary sector, Alliance members remain wholly committed to continue our successful partnership working and would like to work constructively with partners to examine possible solutions and to lobby for change together.

The cost implications and impact identified here highlight the risk to the VCSE sector as a whole in East Sussex. Reductions or closure of services and support to local people and communities, and/or local people not having timely access to quality VCSE services are beginning to take place and are likely to continue because of these additional costs.

It is likely that this will have far-reaching consequences on statutory services; however further research is needed to fully understand the current state of East Sussex's VCSE sector and the various pressures, including employer's national insurance and national living wage, affecting its resilience.

Outside of this, Alliance members have suggested practical examples of potential support to local VCSE organisations and groups that statutory partners should consider, including:

1. Consider annual uplift of contract values to mitigate additional staffing costs.
2. Make quarterly claims retrospectively against NI uplifts.
3. Manage commissioner's expectations and discourage additional requests for information.
4. Adapt contractual and/or grant funded KPIs.
5. Reconsider exemptions.
6. Review Terms & Conditions.
7. Reduce data requests.
8. Strategic and collaborative cross-sector approaches to risk sharing.
9. Continued lobbying of government and provide assurances this is a one-off action.

We look forward to working with partners to develop solutions.

10. Summary of survey questions and headline results

Note on headline figures:

14 Alliance members results were extrapolated to produce headline figures in section 4.

The increased costs of Question 2. Employers National Insurance + Question 4. National Minimum Wage for 14 members is: £1,161,064 + £406,760 = £1,567,824

Outlying results were removed and results extrapolated to 25 members to show increased cost of National Insurance + National Minimum Wage: £1,424,206 + £531,311 = TOTAL INCREASE of £1,955,517.

These figures have been reasonably rounded up to the headline figures featured in section 4.

Survey Questions:

1. Which organisation do you represent?

- 56% response by Alliance members (14 out of 25 organisations responded)

2. What is the projected additional annual cost of changes to *Employer's National Insurance* contributions on your organisation?

- The total additional annual cost to 14 Alliance organisations = **£1,161,064**
- The largest additional annual cost listed by a respondent = **£594,000**
- The smallest additional annual cost listed by a respondent = **£1,500**

3. What percentage of your annual turnover does this represent? Based on this financial year

- The largest percentage listed by an organisation = **15%**
- The lowest percentage listed by an organisation = **0.5%**

3.1. What percentage of your annual staff costs and related staff on-costs (e.g. pensions) does this represent?

- The largest percentage listed by an organisation = **4%**

4. What is the projected additional annual cost of the increase to the *National Minimum Wage* on your organisation?

- Seven organisations will pay £0 extra as they are committed to paying the Living wage and therefore pay above the national minimum wage
- The total additional annual cost to 14 Alliance organisations = **£406,760**
- The largest additional annual cost listed by a respondent = **£300,000**
- The smallest additional annual cost listed by a respondent = **£4,400**

5. What percentage of your annual turnover does this represent? Based on this financial year

- The largest percentage listed by an organisation = **1.13%**
- The lowest percentage listed by an organisation = **0.4%**

6. What impact(s) might/will these additional costs have on your organisation and your work?

- 1 organisation will reduce staff count by 1 (currently employs 14 staff)
- 6 organisations will review staffing levels with potential redundancies/cuts
- 3 organisations will be unable to offer salary increases for staff
- 2 organisations may have to reduce their service offer

7. What are the likely potential/actual impacts on your service users/recipients? Results include:

Service delivery

- Reduction in services (including to families with SEND children and young people)
- Significant scaling back of support provided
- Reduction in hours a support service open
- Longer wait times to access services (potentially unable to help at time support most needed)
- Reduction in casework (i.e. no access for 1:1 support)
- Fewer client contacts
- Reduced engagement and communication with the public
- Potential reduction in quality-of-service delivery due to efficiency savings

Organisational

- Raising the cost of care prices (passing the cost on to customers)
- Potential increased staff turnover – additional recruitment cost, service disruption etc.
- Less funding to spend on essential services

8. Can you offer solutions that could reduce the impact of these increases?

- Explore all avenues, e.g. reducing staff hours, pay freeze, reducing office space, closing some groups we run.

- Consider models that are more cost effective - online or group sessions, increased use of volunteers.

- Look at alternative ways of supporting these activities.

- The choices are that 1) funders increase their investment so charities can continue as they are, or 2) charities reduce staffing and amend their offer in line with reduced staffing levels.

- Work smarter – with a greater use of technology for meetings (investment funding required).

- Salary reviews, staffing level reviews.

- Mitigate the immediate impact by using some funds from reserves if available, but this is unsustainable in the medium-longer term.
- Develop digital tools to enable service users who prefer to engage online to access information and advice in this way - but do not see this dramatically reducing the need for telephone and in person support.

9. Do you have any other information you wish to share.

- We can provide more costed and planned impacts and mitigations once we know what/any fee uplifts we may receive.

- It's not just the increased costs it's also cuts on existing contracts and the decline of alternative sources of funding.

- Part of the significant pressures on organisation's finances for 2025-26

- Total is a 4.19% increase in staffing costs against previous year

- Two organisations can provide examples of the potential impacts.

END