

Counting the Cuts

The impact of spending
cuts on the UK voluntary
and community sector -
2013 update

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1 Foreword

1.1 What's changed since our last Counting the Cuts report was published?

When NCVO published the Counting the Cuts report in 2011, our assumptions were based on official spending forecasts. At that time, the newly established Office for Budget Responsibility was predicting that the economy would have returned to 2.9% growth by 2013, after the deep recession of 2008/9. The deficit was expected to fall significantly over the coming years. Cuts would kick in, with the voluntary sector taking its fair share. But new opportunities were also on the horizon. Between the Localism Act and the Open Public Services White Paper, voluntary organisations understood that they would be able to play a stronger role in the design and delivery of public services in the future. In short, the forecast was for (relatively) short-term pain followed by longer term gains.

It's now two years on and our analysis can be updated.

Unfortunately, economic growth has proved elusive, with the country experiencing a second technical recession in 2011/2012. Spending cuts have kicked in, and preliminary evidence suggests that voluntary organisations have taken more than their share of the pain. New contract and funding opportunities have emerged – including several high-profile new payment-by-results programmes. But voluntary organisations have also faced barriers in accessing these contracts – often struggling to compete with the private sector. They have also had to cope with increased demand for certain services and the impact of rising costs.

In this updated report, we revise our cuts estimates. It is necessary for NCVO to construct these estimates, because the government does not release timely or consistent data about their expenditure on the voluntary sector. We believe that this should be remedied urgently, to inform policymakers and commissioners, as well as the sector.

In the absence of such data, NCVO constructs its estimates by drawing on the latest economic forecasts from the Office for Budget Responsibility (OBR), charity accounts data (from the NCVO UK Civil Society Almanac 2013), and data provided by local authorities via Freedom of Information requests (made by Compact Voice).

We model three possible scenarios to 2018: proportionate cuts, disproportionate cuts, and a 'contract winning' scenario. It is important to note that, as a result of using OBR forecasts, all three scenarios are underpinned by current policy assumptions – specifically, the Chancellor's commitment to meet his 'fiscal mandate' by cutting spending. These forecasts therefore remain subject to change, depending on economic and policy developments, including the outcome of the 2015 General Election.

NCVO exists to champion and strengthen civil society. We will continue to champion our members' interests in our work with government, and provide support for our members as they develop sustainable funding approaches.

Charlotte Ravenscroft, Policy Manager, NCVO

2 Overview

2.1 Headlines

1. Net public expenditure in 2017/18 will be £13.5 billion lower than it was in 2010/11 (using 2010/11 prices).
2. Assuming that the voluntary sector experiences proportionate cuts, funding for voluntary sector will be £1.7 billion lower by 2017/18 than it was in 2010/11 (using 2010/11 prices).
3. According to Freedom of Information requests made by Compact Voice, 71 of 141 (50%) local authorities that responded had disproportionately cut voluntary sector grant funding in 2011/12.
4. NCVO has modelled three scenarios (see figure 5 on page 17) – ‘proportionate cuts’, ‘disproportionate cuts’, and a more positive ‘contract winning’ scenario.
5. We have a fair level of confidence in our forecasts to 2014/15, as the government has announced its overall public expenditure plans for the coming years. However, forecasts beyond 2014/15 are subject to change, particularly as there may be policy changes following the 2015 general election.

2.2 Key recommendations

1. Public bodies should release accurate and consistent data about their expenditure on the voluntary sector. This will help facilitate better policymaking, grounded in evidence.
2. Public bodies must adhere to the Compact when making decisions about cuts. Voluntary organisations should be consulted with and given sufficient notice of any changes to their funding.
3. Commissioners should involve voluntary sector organisations at the earliest stages of the commissioning process - to help identify people’s needs, how services could better meet those needs, and what additional social value could be achieved.
4. Commissioners should consider which procurement approach will be most appropriate to meet their commissioning goals. This should include consideration of grant funding. Where a contract is the best option, consideration should be given to the appropriate size, scope, capital requirements and procurement process – so that voluntary organisations can bid.

Methodology in brief

In the absence of real-time data about public expenditure on the voluntary sector, we have used data from a number of sources to estimate the scale of cuts. In summary:

- All the figures are adjusted to 2010/11 prices, to enable comparability. 2010/11 is the latest year available for baseline voluntary sector income figures.
- Outturn data is available that shows public expenditure in 2010/11 and 2011/12
- Official forecasts for public expenditure from 2012/13 to 2017/18 are from the Office for Budget Responsibility

NCVO has used 2010/11 data from the UK Civil Society Almanac 2013 as a baseline to estimate the proportion of public expenditure on the voluntary sector. Our 'proportionate cuts' forecast assumes that this proportion remains the same, falling in line with overall public expenditure.

KEY RECOMMENDATION

Public bodies should release accurate and consistent data about their expenditure on the voluntary sector. This will help facilitate better policymaking, grounded in evidence.

3 The cuts so far

This section of the report looks at data that is available for 2010/11 and 2011/12, to assess the scale of cuts that have already been implemented.

3.1 The cuts so far - 2010/11

The coalition government formed in May 2010, following a general election in which no party won an overall majority. The Chancellor George Osborne announced an Emergency Budget, followed by a Spending Review that set the parameters for government spending from 2010/11 to 2014/15.

Significant cuts were planned, as part of a package of measures to eliminate the budget deficit. But 2010/11 itself saw only minor in-year adjustments to government spending.

KEY FINDING

Voluntary sector income from government mirrored the pattern for total government spending, with an increase in cash terms of £600 million between 2009/10 and 2010/11. This represented a small decrease in real terms. This is in line with our forecast in Counting the Cuts in 2011.

Table 1 shows a breakdown of voluntary sector income from statutory bodies in 2010/11. This amounted to total income from statutory bodies of £14.2 billion.

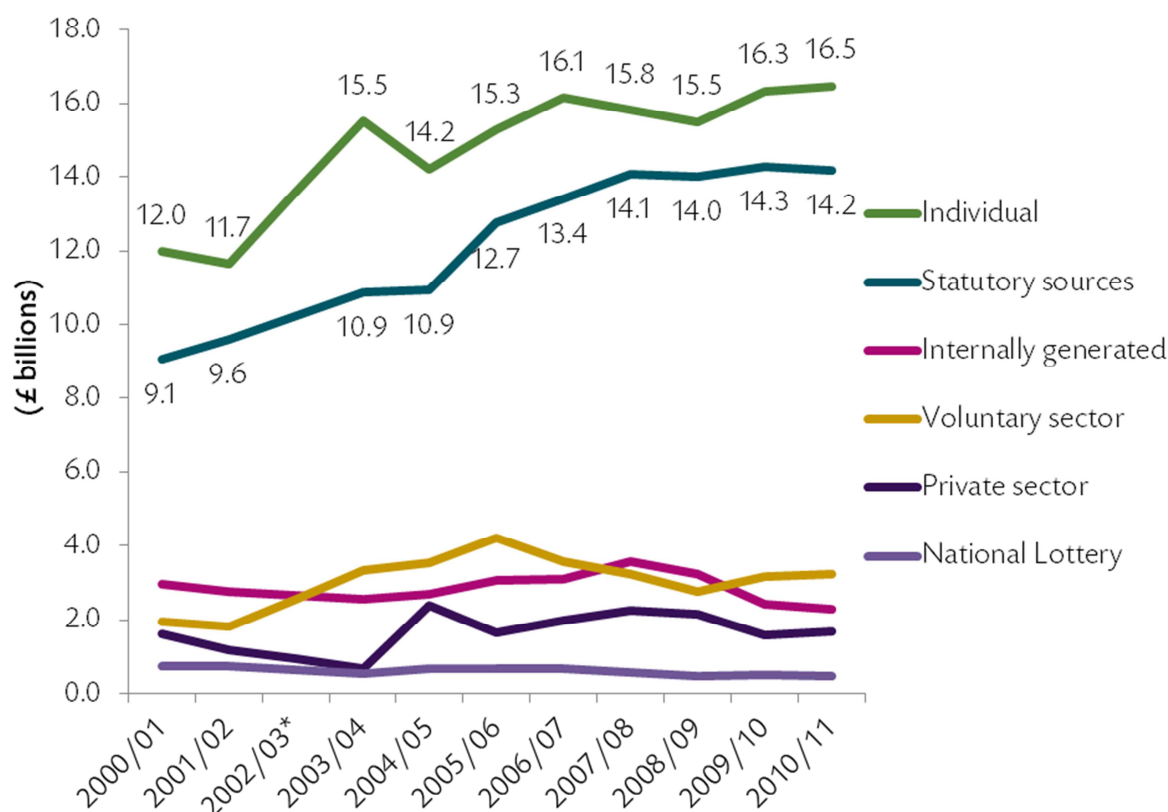
Table 1 - Voluntary sector income from statutory bodies, 2010/11 (£, millions)

	Micro	Small	Medium	Large	Major	Total
Central government	0.3	177.9	943.1	2,158.6	3,061.3	6,341.2
Local government	7.0	173.7	1,087.1	2,134.5	3,652.0	7,054.3
European and international	1.2	3.6	43.2	138.9	601.0	787.9
Total	8.6	355.1	2,073.4	4,432.0	7,314.3	14,183.5

Source: NCVO UK Civil Society Almanac 2013¹

Figure 1 below shows that income from statutory bodies is the second largest source of income for voluntary organisations. Income from individuals is the largest. In 2010/11, the majority of voluntary sector income from statutory bodies was earned from contracts and fees (£11.2 billion), rather than grants (£3 billion).

¹ <http://data.ncvo-vol.org.uk/>

Figure 1 - Voluntary sector income sources, 2000/01 – 2010/11

Source: NCVO UK Civil Society Almanac 2013²

3.2 The cuts so far – 2011/12

Overall, the scale of net public expenditure cuts in 2011/12 was £8 billion, according to outturn data from the OBR. This figure includes an increase in spending on social benefits and debt payments that amounted to £9.7 billion. The significant 'frontloaded' cuts to local authority budgets for that year were £6.8 billion³.

KEY FINDING

In 2011/12, if cuts made to voluntary sector statutory funding were proportionate to cuts in public expenditure, the sector would have lost £396 million in funding from statutory sources (see figure 4 on page 15)⁴.

² <http://data.ncvo-vol.org.uk/>

³ Office for Budget Responsibility (2013) Economic and Fiscal Outlook March 2013 - Fiscal Supplementary Tables, Table 2.29 <http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2013/>

⁴ See methodology section for how we calculate proportionate cuts

KEY FINDING

However, according to Freedom of Information requests made by Compact Voice, 71 of 141 (50%) local authorities that responded had disproportionately cut voluntary sector grant funding in 2011/12⁵. This suggests that the scale of the cuts so far could be higher than £396 million.

'Disproportionate cuts' is a contested term. Compact Voice uses the term when a local authority made larger percentage cuts to the voluntary sector, than to their overall budgets. However, there are different types of decisions at stake. For example, not renewing a contract is different to breaking the terms of a contract.

In September 2011, DCLG published new guidance in response to reports of disproportionate cuts being made to the voluntary sector. Its Best Value Statutory Guidance sets out expectations of public authorities to:

- *"be responsive to the benefits and needs of voluntary and community sector organisations of all sizes" and*
- *"seek to avoid passing on disproportionate reductions - by not passing on larger reductions to the voluntary and community sector and small businesses as a whole, than they take on themselves".⁶*

Despite DCLG's statutory guidance, Compact Voice's report also found that many local authorities were not carrying out appropriate consultation or impact assessments. This is a serious concern.

Without proper impact assessments, the impact of cuts to voluntary organisations and their beneficiaries may not have been fully understood. The risk is that this could lead to the loss of important and effective services delivered to vulnerable groups.

Poor consultation processes also limit the sector's ability to plan ahead. Only 59% of local authorities that responded to FOI requests reported holding consultations on changes to policies and funding, with 32% reporting consultations less than 12 weeks in duration⁷.

KEY RECOMMENDATION

Public bodies must adhere to the Compact when making decisions about cuts. Voluntary organisations should be consulted with and given sufficient notice of any changes to their funding.

⁵ Compact Voice (2012) Freedom of Information Responses <http://www.compactvoice.org.uk/foi2012>

⁶ <https://www.gov.uk/government/publications/best-value-statutory-guidance--4>

⁷ Compact Voice (2012) Freedom of Information Responses <http://www.compactvoice.org.uk/foi2012>

Comment from the Local Government Association

"Local government's central funding is being cut by 33 per cent across the current spending period. This is one of the biggest reductions in the public sector. The majority of councils have also frozen council tax since 2010/11. The result is significantly less money to spend on local services. With the aging population pushing up demand for adult social care services an increasing proportion of council budgets is being spent on them. This means that other service areas have to deliver a larger share of the savings than would be the case if demand for adult social care remained static.

"This issue will be exacerbated in coming years as demand for social care continues to grow while local government funding shrinks. The LGA's Funding Outlook Report shows that by 2020 there will be a £16.5 billion gap between predicted funding and the cost of providing services at current levels. The amount of money available for services outside of social care, waste and concessionary fares will have shrunk by 90 per cent. Faced with these mounting pressures, councils and voluntary and community organisations must continue to find innovative ways of working together on behalf of local people."

Finally, it is important to note that the experiences of individual charities differed. Charities documented cuts amounting to £75 million in 2011/12 on the crowdsourcing website Voluntary Sector Cuts⁸. Some cuts represented a relatively small reduction in funding; others involved the loss of funding for whole services. There are a plethora of reports by charities and other bodies that describe the impact of cuts on individuals, communities, and organisations. For example, London Voluntary Sector Council⁹, National Council for Youth Voluntary Services¹⁰, and the Institute for Fiscal Studies¹¹.

3.3 Other trends in government funding since 2010

The funding environment for voluntary organisations has changed significantly since 2010. However, cuts are not the whole story. The government has set out an ambitious public service reform agenda. Key policy developments include:

- **Open Public Services White Paper** – enabling private and voluntary sector providers to play a greater role in the delivery of public services.
- **Localism Act** – devolving powers; establishing community rights to challenge and to bid to deliver public services.
- **Changes to commissioning structures** – including restructuring the NHS, introducing police and crime commissioners, and rolling out academies and free schools.

⁸ <http://voluntarysectorcuts.org.uk/>

⁹ <http://www.lvsc.org.uk/research-policy/campaigns/big-squeeze/london's-voluntary-and-community-sector-funding-updates.aspx>

¹⁰ http://www.ncvys.org.uk/UserFiles/Comprehensive_Cuts_3.pdf

¹¹ <http://www.ifs.org.uk/publications/6668>

- **Social Value Act** – requiring commissioners to take account of social, economic and environmental benefits when deciding how to deliver a public service.
- **Growing the Social Investment Market** – strategy to give voluntary organisations and social enterprises better access to finance.

In theory, these policy developments should all strengthen the hand of voluntary organisations and the communities they serve. In practice, many are struggling to capitalise on these opportunities.

Central government has consolidated a range of previous funding streams and programmes, and launched new payment-by-results (PBR) programmes. PBR contracts have proved difficult for many voluntary organisations to access, as a result of contract size, structure and capital requirements. Those organisations that have become involved in DWP's flagship Work Programme as sub-contractors have mixed experiences¹².

At national and local levels, commissioning practice varies widely. Some voluntary organisations are closely engaged with commissioners, helping to advocate on behalf of their communities and vulnerable groups. Some councils have worked with voluntary organisations to help identify and articulate their social value. Whereas others are focussing simply on reducing costs: deciding to opt for lowest cost bids, and 'top slicing' existing grants and contracts. For more on commissioning practice, see reports by Compact Voice¹³ and NCVO¹⁴, and the National Audit Office's decommissioning guide¹⁵.

For more on the changing shape of public services, see reports by New Philanthropy Capital¹⁶, Social Enterprise UK¹⁷ and NCVO and our partners¹⁸.

KEY RECOMMENDATION

Commissioners should involve voluntary sector organisations at the earliest stages of the commissioning process - to help identify people's needs, how services could better meet those needs, and what additional social value could be achieved.

KEY RECOMMENDATION

Commissioners should consider which procurement approach will be most appropriate to meet their commissioning goals. This should include consideration of grant funding. Where a contract is the best option, consideration should be given to the appropriate size, scope, capital requirements and procurement process – so that voluntary organisations can bid.

¹² NCVO (2013) The Work Programme – Perceptions and Experiences of the Voluntary Sector http://www.ncvo-vol.org.uk/sites/default/files/sig_survey_june_2012_report_17.9.12.pdf

¹³ <http://www.compactvoice.org.uk/resources/case-studies>

¹⁴ <https://www.ncvo-vol.org.uk/news/ncvo/weve-submitted-evidence-public-administration-select-committee-procurement>

http://www.ncvo-vol.org.uk/sites/default/files/ncvo_evidence_to_dclg_task_and_finish_2012_-_without_lse.pdf

¹⁵ <http://www.nao.org.uk/decommissioning/>

¹⁶ <http://www.thinknpc.org/publications/when-the-going-gets-tough-2/>

¹⁷ <http://www.socialenterprise.org.uk/advice-support/resources/the-shadow-state-report-about-outsourcing-public-services>

¹⁸ http://www.ncvo-vol.org.uk/sites/default/files/open_public_services_experiences_from_the_voluntary_sector.pdf

In addition to public service reforms, the government has launched a number of initiatives to help put the voluntary sector on a more sustainable footing – including the following:

- The **Transition Fund** was set up by the Office for Civil Society in March 2011, providing £100 million to help voluntary organisations affected by public spending cuts. The fund aimed to prepare organisations for new funding opportunities and help them adapt.
- The **Social Action Fund** was launched in September 2011 providing £20 million to support projects that promote volunteering, and giving of time, money, knowledge and assets.
- **Big Society Capital** was established in 2012, as a wholesale investor, to boost the social investment market. By January 2013, BSC had committed £56 million and set ambitious targets for investing in new projects¹⁹. Improving the availability of finance will help certain (typically larger) voluntary organisations, but it will not be suitable for all. Loans and other types of investment need to be repaid, usually with interest, so cannot replace other types of grant and contract income.

We welcome these new initiatives to support civil society and social action. However, it is important to recognise that they are unlikely to plug funding gaps and sustain current services, particularly as new funds will largely flow to different organisations.

¹⁹

<http://www.bigsocietycapital.com/sites/default/files/pdf/Investment%20Announcements%20Jan%202013%28FINAL%29.pdf>

4 The cuts to come

To forecast the scale of cuts still to come, NCVO takes a range of information into account. This section looks at the government's economic plans and forecasts of the Office for Budget Responsibility, which underpin our modelling. We then set out three possible scenarios for the scale of cuts to come and our analysis of these scenarios.

4.1 Balancing the books – the challenge

In 2010, the Chancellor set out his 'fiscal mandate': to eliminate the structural deficit within five years. To help balance the books, the Chancellor planned significant cuts to social benefits and departmental spending.

Since then, a number of factors have led to lower-than-anticipated economic growth and public receipts. As a result, the Chancellor has said that the deficit will not be eliminated by 2015, but that he still plans to meet the rolling target within five years. There is an economic and political debate about how best to do this. Some politicians and commentators advocate deeper cuts – for example, to social benefits. Others advocate an increase in government spending to boost economic recovery – for example, to incentivise businesses to take on new staff.

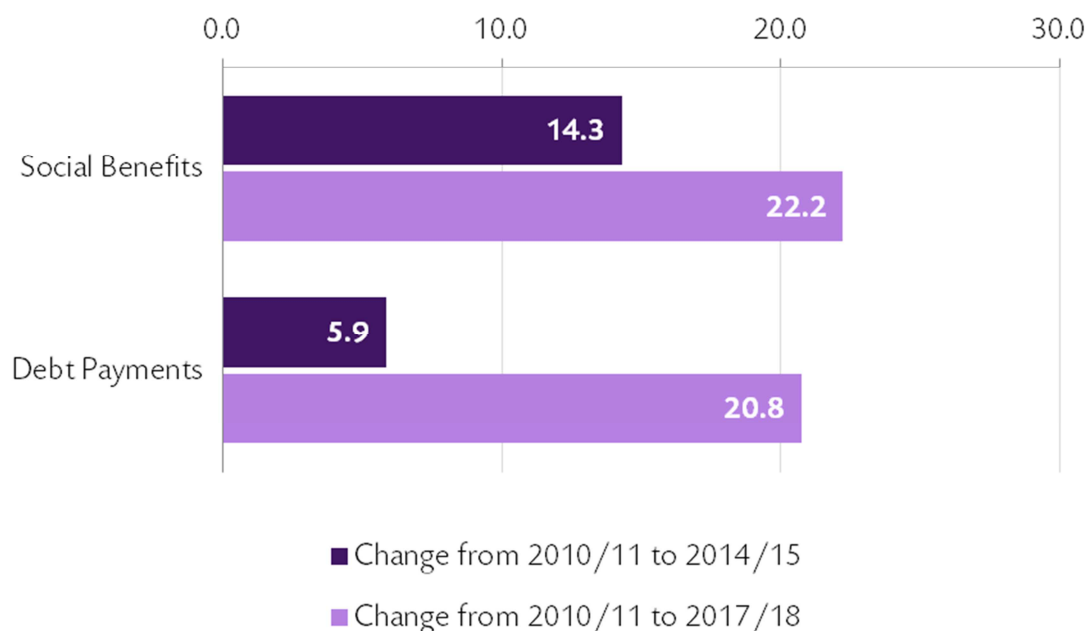
The Chancellor's response has been to press ahead with austerity measures. This means that cuts are now expected to continue for longer – potentially until 2017/18 – three years beyond the initial spending review period.

Although further spending cuts are expected, it is uncertain whether the fiscal mandate will be met. As noted in our last report, net public expenditure was expected to be £20 billion lower by 2015/16. Yet with a further three years of cuts, net public expenditure is now only expected to be £13.5 billion (in 2010/11 prices) lower by 2018²⁰. These revised figures have been attributed to the higher-than-anticipated social benefit costs. The OBR's recent forecasts indicate that the social benefits bill will increase by £22.2 billion by 2018.

Figure 2 shows this rise in social benefit payments, as well as debt payments; both are expected to continue growing after 2015.

²⁰ Office for Budget Responsibility (2013) Economic and Fiscal Outlook March 2013 - Fiscal Supplementary Tables, Table 2.29 <http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2013/>

Figure 2 - Forecasted change in government spending on social benefits and debt payments from 2010/11 to 2017/18 (£ billions, 2010/11 prices)



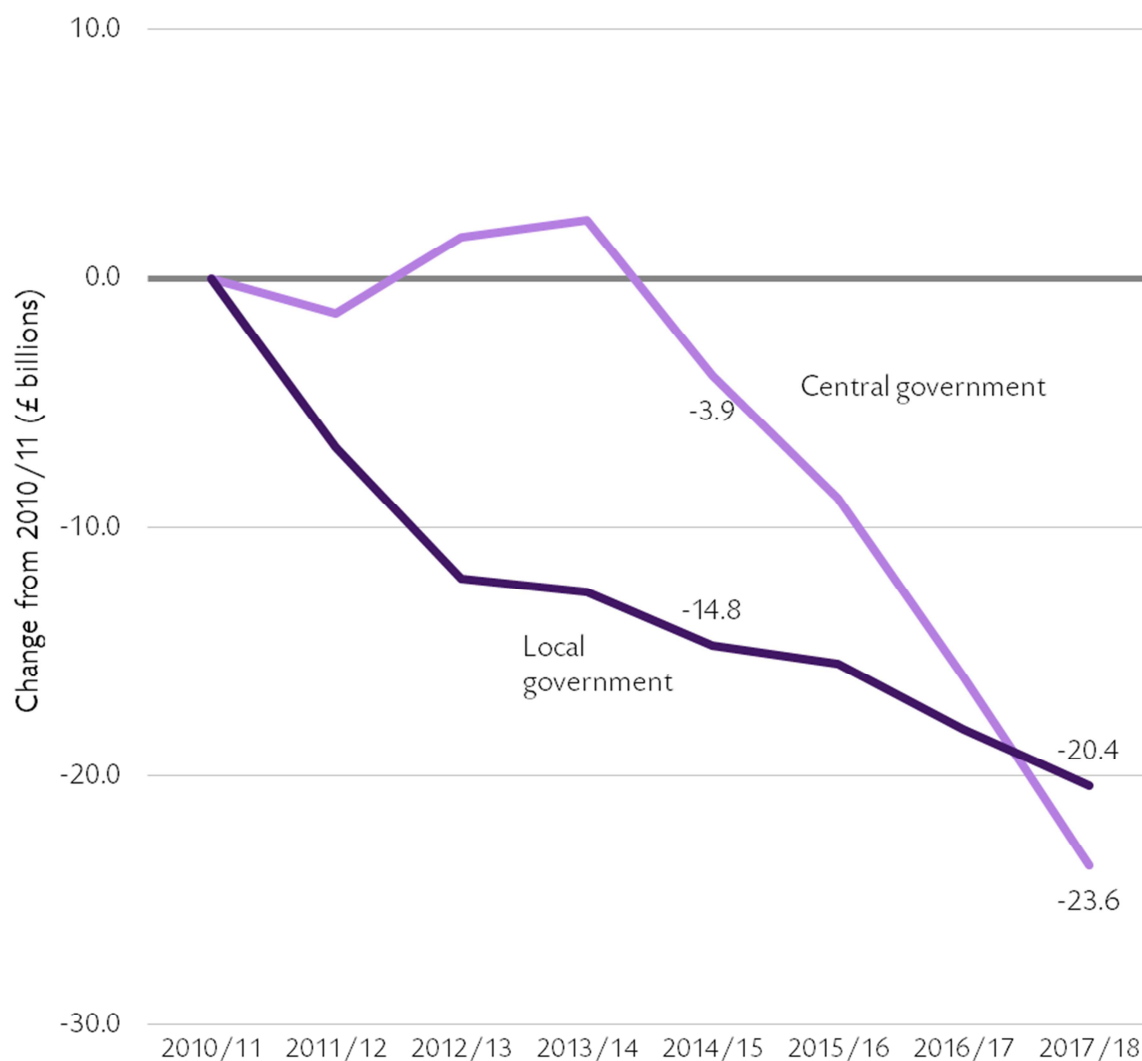
Source: Office for Budget Responsibility (2013) Economic and Fiscal Outlook²¹

As this 'annually managed expenditure' (including social benefits and debt payments) is due to rise, the majority of reductions in public expenditure will be from departmental resource budgets. Figure 3 below shows forecast cuts to central and local government.

As figure 3 shows, local government spending has been hardest hit so far. This is expected to continue and to have a significant knock-on impact for voluntary organisations. Local community services, social care services, children's and youth services will be among those that experience significant cuts passed on by local authorities. DCLG had provided a transitional grant for local authorities that were most affected, but this came to an end in April 2013.

²¹ Office for Budget Responsibility (2013) Economic and Fiscal Outlook March 2013 - Fiscal Supplementary Tables, Table 2.29 <http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2013/>

Figure 3 - Forecasted change in total central and local government spending 2010/11 to 2017/18 (£, billions)



Source: Office for Budget Responsibility (2013) Economic and Fiscal Outlook²²

4.2 Our forecast for cuts to the voluntary sector

Using the OBR forecasts described above in figure 3, we can estimate the scale of cuts that will affect the voluntary sector in each year between 2012/13 and 2017/18.

Figure 4 assumes that cuts will be passed on proportionately to voluntary sector organisations.

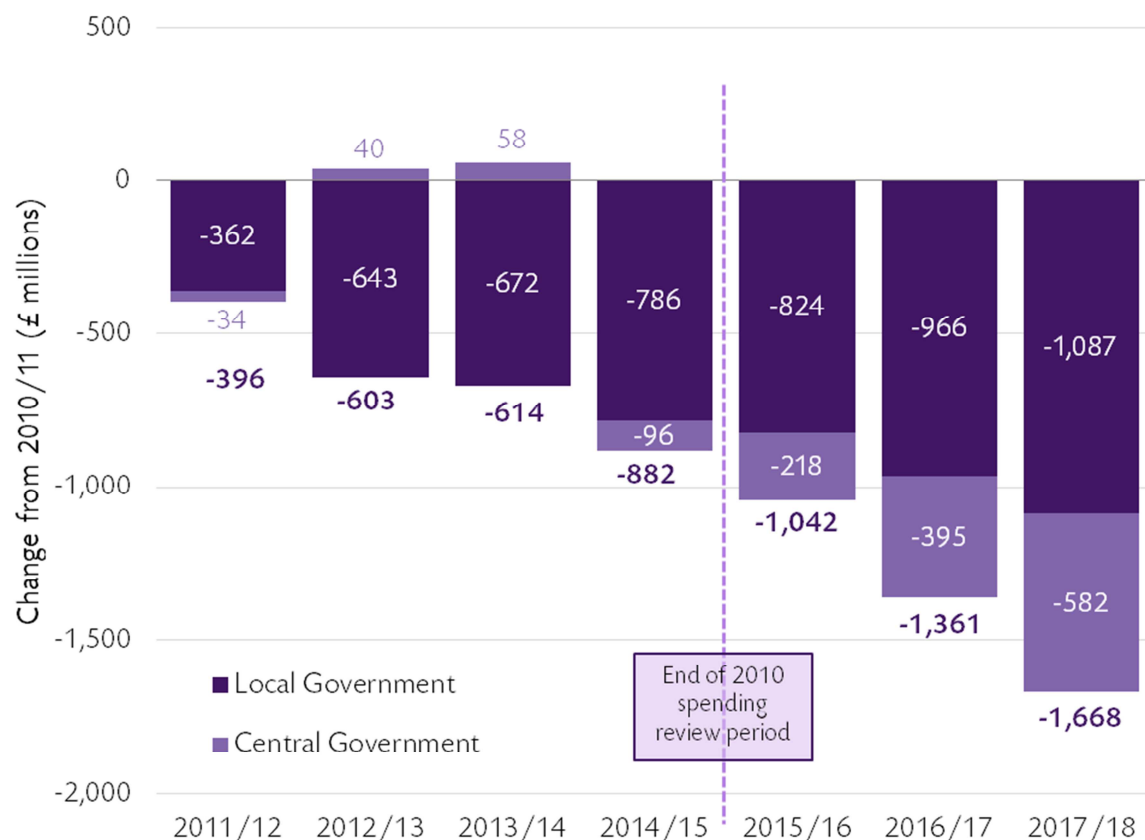
KEY FINDING

Assuming that the voluntary sector experiences proportionate cuts, its income from government will be £1.7 billion lower by 2017/18 than it was in 2010/11 (using 2010/11 prices).

²² Office for Budget Responsibility (2013) Economic and Fiscal Outlook March 2013 - Fiscal Supplementary Tables, Table 2.29 <http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2013/>

As figure 4 indicates, government has now profiled its cuts over a longer time period. As such, cuts between 2010/11 and 2014/15 are less steep than those implied after the end of the spending review period.

Figure 4 - Predicted change in spending on the voluntary sector by central/local government between 2010/11 and 2017/18 in the “proportionate cuts” scenario (£, millions, 2010/11 prices)



Source: NCVO, using data from UK Civil Society Almanac and Office for Budget Responsibility (2013) Economic and Fiscal Outlook²³

It is important to note that the current spending review period ends in 2014/15. Therefore, we have a fair level of confidence in forecasting to 2014/15.

In June 2013, the government will announce the outcomes of its spending review for 2015/16. As the Chancellor announced in Budget 2013, this is expected to include a new framework for annually managed expenditure. This is one factor that could have an impact on forecasts for 2015/16 and beyond.

With the General Election due in May 2015, an incoming government will have the opportunity to set out new spending plans. Therefore, estimates beyond 2015 should be treated as provisional. In figure 4 and figure 5 below, forecasts are made on the basis of the current government's economic policy and

²³ Office for Budget Responsibility (2013) Economic and Fiscal Outlook March 2013 - Fiscal Supplementary Tables, Table 2.29 <http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2013/>

the Chancellor's commitment to achieving the fiscal mandate. Nonetheless, these plans may be subject to change after an election. As the Institute for Fiscal Studies comments:

*"The start of the next Parliament therefore brings no end to the difficult decisions regarding the appropriate balance of taxation and spending and, within spending, between social security spending and public services and between different public services. If such further cuts to departmental spending are not possible without a decline in the quality or quantity of public services that is unacceptable to politicians or to voters, then higher borrowing, further tax increases or social security spending cuts – perhaps after the next general election – must be on the cards."*²⁴

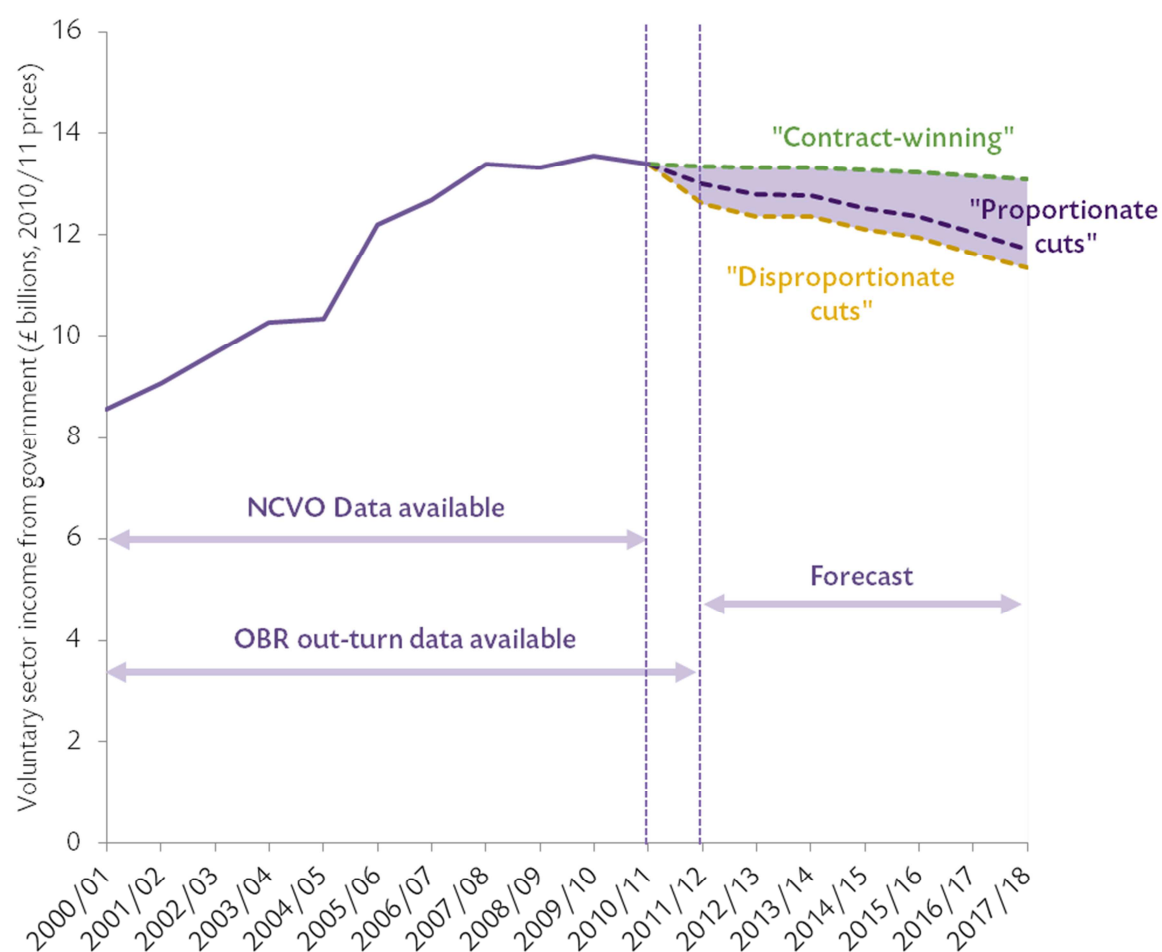
4.3 Three scenarios for the sector

The proportionate cuts shown in figure 4 are not the only scenario for the future of voluntary sector income from government. Figure 5 shows three scenarios for public spending on the voluntary sector.

- The "**proportionate cuts**" scenario is based on Figure 4 above. Using OBR forecasts as a starting point, we assume that the proportion of spending from both central and local government that went to the voluntary sector in 2010/11 will remain consistent until 2017/18.
- In the "**contract-winning**" scenario, we assume that grants are cut proportionately (as above), but that income from contracts remains at the levels seen in 2010/11.
- The "**disproportionate cuts**" scenario follows up on concerns from Compact Voice's research that the VCS will be disproportionately affected by cuts in public spending. Local authorities included in this study that responded to FoI requests, reported spending 8.4% less on grants to the voluntary sector in 2012 than they did in 2011. With proportionate cuts estimated to be 5.1% for this year (for local government), this scenario therefore assumes that spending on the voluntary sector is 3.3% less than the proportionate cuts scenario.

²⁴ The Green Budget, IFS, February 2013 <http://www.ifs.org.uk/publications/6562>

Figure 5 – Three scenarios for voluntary sector income from government 2001/01 to 2017/18 (£, billions - 2010/11 prices)



£ billions, 2010/11 prices	2010 /11	2011 /12	2012 /13	2013 /14	2014 /15	2015 /16	2016 /17	2017 /18
Contract-winning	13.4	13.3	13.3	13.3	13.3	13.2	13.2	13.1
Proportionate cuts	13.4	13.0	12.8	12.8	12.5	12.4	12.0	11.7
Disproportionate cuts	13.4	12.6	12.4	12.4	12.1	11.9	11.6	11.3
% change from 2010/11	2010 /11	2011 /12	2012 /13	2013 /14	2014 /15	2015 /16	2016 /17	2017 /18
Contract-winning		-0.4%	-0.5%	-0.5%	-0.9%	-1.2%	-1.7%	-2.1%
Proportionate cuts		-3.0%	-4.5%	-4.6%	-6.6%	-7.8%	-10.2%	-12.5%
Disproportionate cuts		-5.9%	-7.7%	-7.7%	-9.7%	-10.8%	-13.1%	-15.3%

Source: NCVO, using data from UK Civil Society Almanac and Office for Budget Responsibility (2013) Economic and Fiscal Outlook²⁵

²⁵ Office for Budget Responsibility (2013) Economic and Fiscal Outlook March 2013 - Fiscal Supplementary Tables, Table 2.29 <http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2013/>

5 Conclusion

On balance, NCVO anticipates that austerity policies will continue beyond the 2015 general election. The depth and pace of cuts may change; but it is unlikely that government funding of voluntary organisations will 'bounce back' to levels seen prior to the 2008 financial crash.

Given this, we expect the totality of expenditure on the voluntary sector to fall roughly in line with our 'proportionate cuts' scenario.

However, the most significant change is likely to be the distribution of this expenditure. As Freedom of Information requests and evidence gathered from the sector shows, many organisations are experiencing disproportionate cuts - for example, contracts ending. Whereas public expenditure on the voluntary sector is increasing in certain areas - for example, new payment-by-results programmes.

These two trends are likely to result in some divergence of experiences. Typically, it may be smaller community organisations that receive funding from local authorities that experience disproportionate cuts. Whereas some larger charities that can access new contracts may be less significantly affected or more able to replace lost income with new. Nonetheless, the impact of cuts on individuals and communities may be at least as significant, whichever the service provider.

6 Methodology

Ideally, central and local government would publish details of their spending on the voluntary sector. In the absence of this kind of information, NCVO has used three different methods to forecast the cuts: estimates based on official forecasts, asking public bodies directly, and gathering data from voluntary sector organisations. Since our 2011 Counting the Cuts report, NCVO has been able to build on comments from inside and outside of our organisation to enhance the accuracy of this report's forecasts and models.

A number of methodological challenges arise in attempting to estimate the impact of cuts to public funding for the VCS:

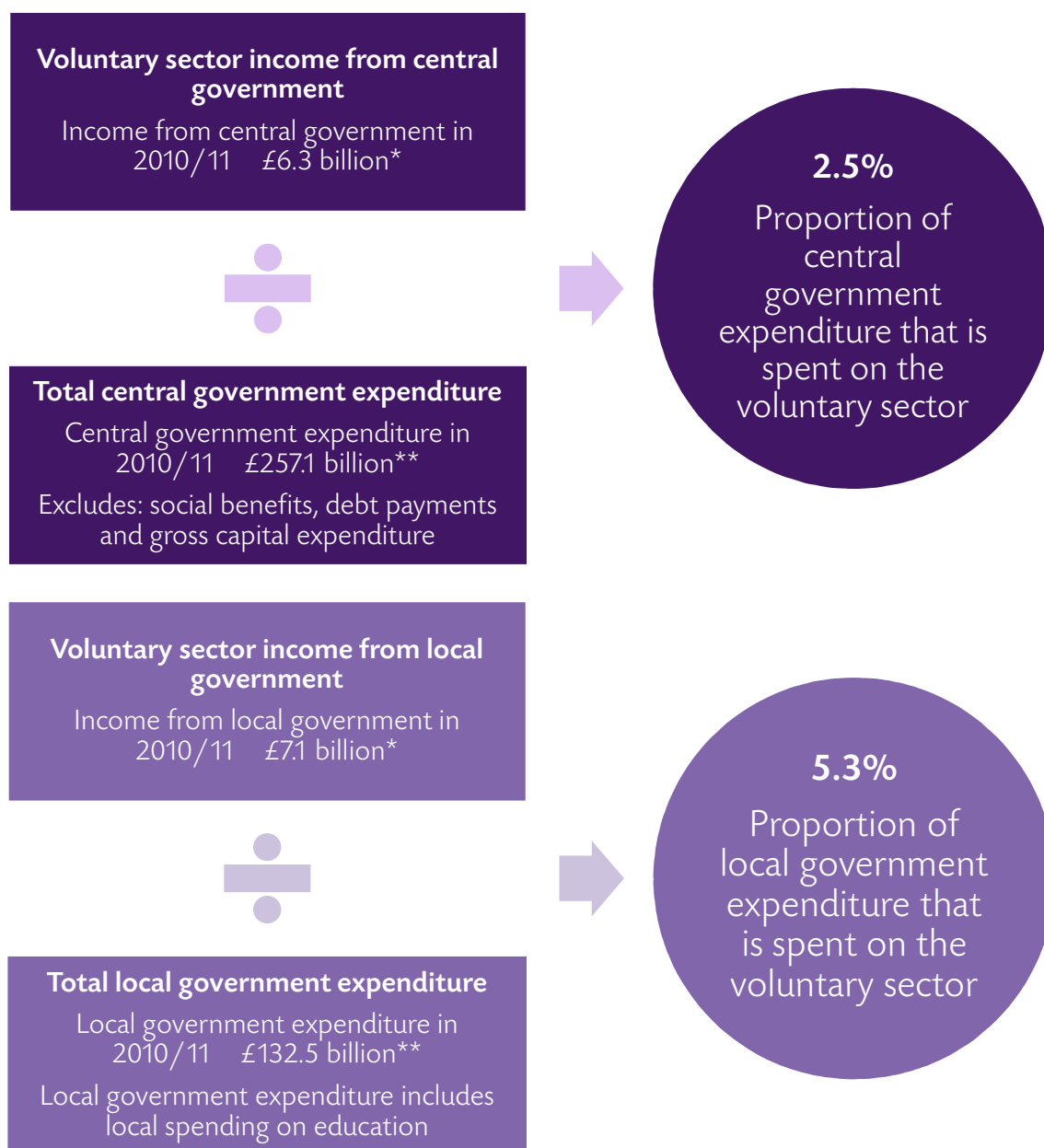
- It is not always immediately obvious what constitutes a cut in funding. For example, a contract with one organisation can come to an end without there being a net loss in funding.
- Timing - the various data sources used in our models are made available at different times, which creates problems when we try to compare or combine data that may be years apart.
- Detailed data on central and local government spending is not available in consistent and timely fashion.

The data we've used for Counting the Cuts is UK-wide, with the exception of evidence gathered by Compact Voice which was collected from local authorities in England. Our three scenarios are applied UK-wide, but there in practice will be variations across the different nations, regions and local areas.

6.1 Estimates based on official forecasts

The first approach has been to use estimates from the Office of Budget Responsibility to estimate the total cuts in spending over the course of the spending review. These forecasts can then be used to estimate how big these cuts will be for the voluntary sector, by combining it with data from NCVO's UK Civil Society Almanac. Using Almanac data, which is based on audited Annual Accounts submitted by charities, we can calculate the total amount received by the voluntary sector from local and central government for every financial year until 2010/11. Assuming that this proportion will remain the same over the course of the spending review, we can use the official forecasts to estimate how much less the sector is likely receive from government once the cuts have been implemented.

Throughout this report, NCVO has used 2010/11 as a baseline to estimate the proportion of public expenditure on the voluntary sector. This calculation has two parts - local and central government:



6.2 Asking the public sector

A second approach is to ask the public sector directly how much they have spent on voluntary and community organisations. As noted previously, this data is not readily available from most public bodies. Compact Voice has attempted to gather this information via Freedom of Information requests. This information is available online, although it is worth pointing out that not all local authorities responded

* NCVO UK Civil Society Almanac 2013 <http://data.ncvo-vol.org.uk/>

** Office for Budget Responsibility (2013) Economic and Fiscal Outlook March 2013 - Fiscal Supplementary Tables, Table 2.29 <http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2013/>

to the FOI requests and some provided incomplete data.

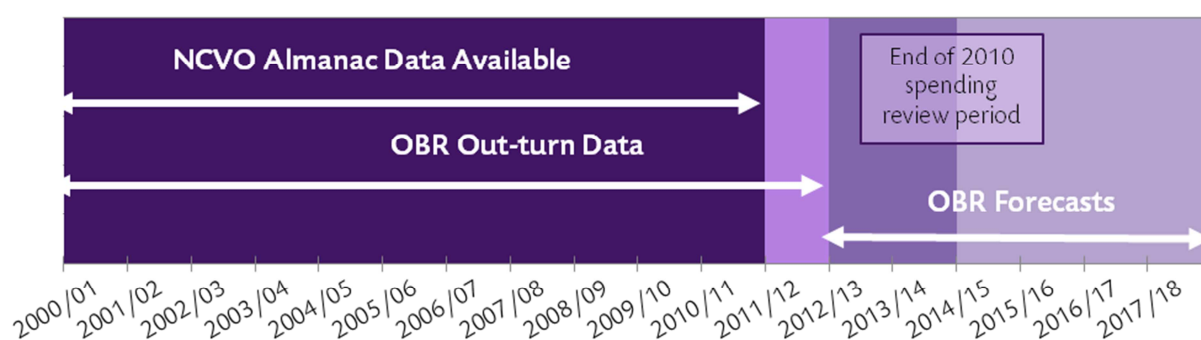
This FoI data was used to produce the "disproportionate cuts" scenario shown in figure 5. Compact Voice recorded an average cut in grants for those local authorities that responded for both years of 8.4%. The "disproportionate cuts" scenario is constructed by assuming that this reduction holds true for all government spending, and that in 2011/12 the reduction was 3.3% greater than the 5.1% "proportionate" cut.

Last year, NCVO responded to DCLG and LGA consultations on how to improve reporting by local authorities. We recommended that all local authorities make expenditure data for all transactions with the voluntary sector over £500 publicly available, up to date and in an accessible format (such as comma-separated values)²⁶.

6.3 Asking the voluntary and community sector

The NCVO UK Civil Society Almanac data estimates the total income the voluntary sector received from local and central government, using data gathered from charities' accounts. This enables us to extrapolate what proportion of voluntary sector income comes from government. A problem identified with the 2011 report was the two-year time-lag between OBR data and the most recent data from NCVO's Almanac. As shown in figure 6, for this report the time-lag is only one year, with the Almanac data covering up to 2010/11, one year behind the latest OBR forecasts (made available March 2013). This time lag in our estimates is therefore less likely to distort our forecasts.

Figure 6 - Data coverage for estimates, 2000/01 to 2017/18



6.4 Impact of inflation

Throughout this document we have presented the figures in "2010/11 prices", rather than in cash terms. This means that all the figures have been adjusted to take into account changing costs over the forecast period, and so comparisons between different years can be made using equivalent figures.

To make these adjustments we have used the Office for Budget Responsibility's forecasts for the GDP deflator, which are published by HM Treasury²⁷. These deflators are used by the OBR to produce real-terms estimates for the changes in government finances.

It is important to remember, however, that many decisions on government spending are made on a cash basis – particularly at the level of individual contracts to provide services. Where commissioners do not take account of rising costs this can lead to an "invisible cut" for voluntary organisations, as inflation erodes the real income from a contract which has the same monetary value.

²⁶ <http://www.ncvo-vol.org.uk/news/public-services/ncvo-responds-two-data-consultations>

²⁷ <https://www.gov.uk/government/publications/gdp-deflators-at-market-prices-and-money-gdp-march-2013>