Glasgow Council for the Voluntary Sector

DECEMBER 2024

Understanding the Impact of Employer National Insurance changes on Glasgow Charities

> "An additional significant cost pressure, while already not achieving full cost recovery and already having conversations with funders about reducing what is a statutory service."

GCVS conducted a brief survey to understand how changes to the UK Government's Employer National Insurance (NI) contributions and thresholds will impact charities, voluntary organisations, and community groups in Glasgow.

The survey was distributed to our members, charities on our mailing lists, and shared on social media. It included three questions aimed at assessing how the NI changes would affect organisations, exploring potential responses to mitigate negative impacts, and understanding how different sizes of organisations might be impacted.

Read the full report...

Understanding The Impact of Employer National Insurance Changes on Glasgow Charities –

Survey Details

We gathered 96 responses, with a varied mix of organisation sizes and staff numbers. The majority are based in and operating in Glasgow, while 12 respondents operated outside the city but with an online presence:

When asked to 'Please tell us more about your organisation by ticking all that apply':

- **Operating in Glasgow** **56 (58.3%)**
- **Operating in Glasgow and other areas** **30 (31.3%)**
- **We only operate outside of Glasgow (or online)** **12 (12.5%)**

Staff numbers/organisation size:

- **We are run by volunteers with no paid staff** **1 (1.0%)**
- **We have 1-5 members of staff** **26 (27.1%)**
- **We have 6-15 members of staff** **27 (28.1%)**
- **We have more than 15 members of staff** **34 (35.4%)**

A few respondents did not provide all relevant details in reply to this question.

Survey Responses and Analysis

Question 1: Please tell us how the changes to National Insurance Contributions and Thresholds could impact your organisation. (Please tick all that apply).

This breakdown shows the responses to this question where users could choose multiple options:

Using reserves	**58**	**(60.4%)**
Impact on recruitment	**51**	**(53.1%)**
Reduction in staff hours	**46**	**(47.9%)**
Reduction in services	**40**	**(41.7%)**
Redundancy/restructuring	**30**	**(31.3%)**
Closing organisation	**7**	**(7.3%)**
Merging with other services	**0**	**(0.0%)**
No real changes	**15**	**(15.6%)**

Broken down by organisation size:

No. of staff	Org numbers	Closure	Impact on recruitment	Service reduction	Reduction in staff hours	Redundancy/ restructure	Using reserves	No real changes
1-5	26	3	12	8	8	3	12	7
6-15	27	2	13	9	13	5	14	5
More than 15	33	2	24	19	20	18	27	-
(blank)	10	-	2	4	5	4	5	3
Grand Total	**96**	**7**	**51**	**40**	**46**	**30**	**58**	**15**

As outlined above, 15 organisations opted for 'no real changes'. Respondents were split largely evenly (7 and 5) between organisations with 1-5 staff and the 6-15 staff category. Most shared they would be in a similar financial position or better off as a result of Employment Allowance changes:

> "We are a small charity with 3 staff and income of a approx. £130k a year - the doubling of Employment Allowance protects us from NI rises and reduces our total bill. So the budget was good news for charities like us."

Several organisations chose a combination of some or all four of the options below to describe the potential impact of the NI changes:

- Reduction in services;
- Reduction in staff hours,
- Impact on recruitment
- Using reserves

Respondent comments provide a deeper insight into the knock-on effects. Whilst some smaller organisations may benefit from increased eligibility for Employment Allowance, it does appear that others will face additional costs. A charity with 1-5 staff outlined a freeze on plans to expand:

> "We have a small number of staff but were looking to increase. This has now been put on hold indefinitely."

Another small charity highlighted that:

> "This will put more pressure on our budget and could involve reducing the services we wish to provide. It will also impact on our reserves which we are trying to increase."

An organisation with 6-15 staff members noted similar effects:

> "This will hugely affect plans to grow our staff team in the future and will have an impact on budgets we have submitted as part of future funding applications."

Some respondents commented on their inability to offer pay raises now or in the immediate future:

> "We have a very small team and had hoped to go into recruitment next year, however this may need to go on hold. Furthermore we are doing a salary review through which we wanted to raise salaries of our highly skilled team - this may not be possible with increased costs. We can use reserves in the short term but in the long term this could lead to staff having reduced hours, and therefore we will have to reduce the number of services we deliver."

Like the above organisation, a number mentioned the use of reserves to respond to the NI changes. An organisation of 15 or more staff said:

> "The rise is effectively the cost of one part time member of staff. Either this will be covered from reserves or a staff member made redundant. Neither are appealing options."

In the 1-5 staff group, one organisation commented that the increased NI costs may make it harder to secure funding in future:

> "We are already on the margins around what we are able to do and have sought to keep going despite changes in funding, rarely do funders include HR increased costs so would be hard to go back for those funded for 3 years and ask for more, will also increase future funding applications which may reduce chances of being funded/increase competition/downsize to save money/ this obviously affects what can be offered…

"This is not just how we are affected directly but how our partners are affected and the knock on effect when there are less services at a time when communities need us more."

This last comment is an important one, and at least one other survey respondent highlighted the broader impact on their partners and on the future of important community services. We are already seeing sector-wide issues around funding and recruitment and an inability to offer secure, fair work, so whilst this survey represents a small proportion of organisations in Glasgow, the NI changes will likely add to the existing pressures on many organisations.

This comment from a childcare provider is illustrative of these issues:

"We will need to use reserves as we cannot afford the NI Employer contributions. We are a registered childcare organisation and are bound by ratios. We can only employ one person for every 8-10 new children. It's very demoralising as we have the minimum wage going up as well. It's difficult enough to employ childcare workers in this city/country.

Other respondents outlined that there had been no increase in grants and other funds for several years and that the NI changes were likely to lead to loss of staff and cessation of projects or services.

One organisation indicated that charging service users was an option but not one that any charity would want to consider.

7 organisations selected organisation closure as the likely impact; not all mentioned the size of their organisation. Two of the comments provided illustrate that the NI increases may be an important tipping point for some charities:

"We are already facing a funding crisis and in a fight for survival. This could be the straw that broke the camel's back."

"This has increased our costs, and unless we can increase our income, it will mean dipping into reserves, something we can't afford to do for very long. Ultimately the ever increasing costs of running our service versus the increasing difficulties in securing the required income may mean that we have to close."

An early years' service provides a detailed insight into specific challenges within childcare in the voluntary sector – some arising as a result of devolved policy and made worse by the NI changes:

"Early years services are under great stress at the moment. Due to underfunding of 2 years funding of vulnerable children and underfunding for children 3 - 5. By implementing the 1140 hours we have lost revenue for wrap around care. We have to be a living wage employer therefore increasing NI contributions will have a great impact on our small business where we provide employment for 17 staff."

Finally, an organisation employing part-time staff has indicated that the reduction in the NI threshold will make things harder for families already struggling to make ends meet:

"We currently will recruit staff looking for part time hours - with the drop in the threshold to £5000 we will no longer be able to accommodate this as we would be paying an additional £615 for 2 people to do the hours which one can do. This will impact on those on benefit(s) - who can only work a certain amount of hours and retain their benefits and will have an adverse impact on the lowest income families."

Question 2: Please tell us more if you can about how you expect this rise to affect your group of organisation.

Across all organisation sizes, cost increases mentioned by respondents included:

- An increase in the wage bill of one organisation of around £3000 per month. Another commented:

  "We estimate the increase in our salary bill will be around £6,500 a year, for a small charity with only 8 staff, who already find times tough it's not great."

- Increased National Insurance liability, £10,500 per year for one organisation whilst another said:

  "We have estimated that we will need an additional £31K to meet the increased NIC and thresholds."

- A frontline organisation estimates increased costs of £20,000 which they believe will ultimately reduce the one-to-one support they offer:

  "As an organisation with no means to generate income other than via grants and trusts, all we can do is reduce other outgoings to meet this increase. This will result in a reduction in services for the most vulnerable people on our communities who are disproportionately impacted by poverty. This equates to c. 0.5fte which translates to a reduction of c250 appointments per year. These appointments support people with welfare benefits, debt, housing, immigration and energy as examples…..will lead to more people in our community being cold, hungry and at risk of homelessness."

- Two charities estimate costs of around £30,000 with similar impact on services, including one organisation working closely with disadvantaged children and families.

- The reduction in NI thresholds directly affects one charity with 6-15 members of staff, at a time when many organisations start looking to the next financial year with concern and uncertainty:

  "As we are unaware of what the future looks like with regards to funding for our organisation and a number of our staff are now above the … £5k threshold, the changes to increased NI will have a major financial impact on our organisation."

- A larger organisation/social enterprise has estimated a large increase in costs linked to both the NI changes and the increase in the living (minimum) wage announced by the Chancellor – over £200,000. In its response, the organisation commented:

  "Our Social Enterprise which generates the majority of our funds cannot pass these charges onto clients as we are in a contract and are reliant on what percentage increase we get from the local authority each year. This will impact on what services we can provide to unpaid carers and restrict our plans to expand."

More broadly, previous economic and other crises have depleted organisational reserves as charities sought to maintain critical frontline services and absorb the cost of living and COVID-related costs. This has significantly reduced their ability to be able to meet additional NI liabilities.

A disability organisation commented:

> "The increase on NIC thresholds comes in the context and on the back of cuts to services, Covid and COL Crisis. We have paid COL from reserves and have been topping up delivery to disabled people from reserves to the tune of tens of thousands. This is because grants

have reduced and disability equality competence is lacking amongst funders and accessibility costs are not understood…….For all these reasons, we have depleted reserves and combined with reduced grants (which are precarious at this stage) we lack capacity and resilience to deal with increased NICS."

The NI increase effectively overturns plans and budgets put in place for next year and beyond. One small (1-5 staff) organisation responded:

"We are currently moving from freelance staff to employing staff. this is going to affect the budgets that we'd put in place to move to being an employer."

The NI changes could act like a further cut for charities with multi-year funding, as their grants were set prior to the Budget:

"This will increase our payroll costs in the region of £22k per year. We have multi year funding that these costs haven't been built into for 25/26 onwards. Funding is already a struggle and this is a huge amount of additional costs. We are a Living Wage employer and this has also had a significant increase too - which impacts all roles within the organisation.."

And it's likely that the NI changes will mean that charities are less able/unable to offer fair work, fair pay and job security – fewer staff benefits, an inability to offer overtime and pay rises:

"Unable to offer overtime, staff will be working to strict contracted hours, which will have an impact on service delivery."

"This will effect around half of our staff team which will mean it will be less likely we will afford pay rises in line with inflation, for those under the threshold it will mean extra hours won't be offered in case it takes them over the threshold."

As indicated in the quote above, ultimately, the people and communities supported by our sector are affected down the line as charities grapple with these extra costs.

This comment comes from a charity with 6-15 members of staff:

"…. is another cut to that budget along with the rise in energy costs etc. There is also the rise in living wage to contend with. Although, we all want staff in social care sector to be renumerated adequately, when you are applying for 3 year funding, then one year the living wage goes up higher than you anticipated/costed, then rise in overheads, then rise in N.I. then that funding is totally impacted. Do you stop providing care for one child/adult affected by disability because you cannot afford a member of staff? Do you stop heating the centre that you operate from?"

Conclusions

As with any new policy, the detail below the headlines is key. The responses from charities in Glasgow's voluntary sector demonstrate that the NI changes and the Living Wage increase may mean job insecurity or losses, less recruitment, fewer hours for staff and – ultimately – the reduction of vital frontline services for Glaswegians.

That will affect already stretched public services.

Multiple factors have reduced charities' wiggle room to respond to financial knocks and other crises as they have done over the last decade and more.

There is more and more evidence of increased demand on charities in Glasgow combined with the same increased costs faced by public services and families across the City. However, there is no increase in grant or funding streams to help organisations respond to this. Staff are exhausted – working with people in real need, with no pay rise or job security takes its toll.

The NI changes place further pressure on boards to make tough choices about using reserves to plug the gap – but as this survey indicates, that cannot happen indefinitely. For many, there are limited options to try to recover those costs.

Not surprisingly, there is also continued frustration that the sector remains unrecognised and unvalued by Governments and public bodies; that they do not fully understand how much of what was done previously by public services pre-austerity is now delivered by charities and community groups. One comment sums this up:

> "We feel the 3rd sector is generally forgotten about when decisions like these are made - statutory services would struggle without support from the 3rd sector and this is not acknowledged by those in Government. We hear lots of talk about wage rises and arguments about percentages - the 3rd sector can go years without a wage rise. We battle all the time to keep services going and decisions like these make things so much harder in a really difficult climate.

As others have done, GCVS has called for the Chancellor to understand what the changes to Employer NI mean for the voluntary sector – to take on board that even small community organisations offering preventative support may still face increased costs.

There is an opportunity for the Scottish Government to examine what it can do within its existing powers and reach, assist the sector through its own grants, and ensure that the public bodies it funds do the same. The upcoming budget presents an important opportunity to do so.

Not protecting public services from the NI Changes will feed into how the voluntary sector is funded – the outcome will likely be less funding (again) for the sector. This feed-through to frontline charities has likely not been considered in any impact assessment carried out by the Treasury.

Lastly, we urge both Governments to come and meet charities in Glasgow to hear first-hand about the multiple challenges faced by the communities they support and what that means for their staff and volunteers.

We must ensure that future decisions like this are grounded in a better understanding of their real-life repercussions.

i The Scottish third sector tracker: wave 1-8 key findings. (Summer 2021-Spring 2024) - SCVO