

Impact of higher employer National Insurance contributions on the VCSE sector in the North East

This note has been compiled with detailed input and support from Tony Chapman, Professor of Practice, Durham University, as well as access to data from the most recent unpublished Third Sector Trends.

Introduction

The rise in employer National Insurance contributions announced by the Chancellor in the Budget raises costs substantially for the charities and the wider VCSE sector in the North East.¹ National organisations representing the sector have lobbied the government, asking for the sector to be reimbursed for the extra costs.² Last week the Chancellor rejected these calls.³

This note presents an estimate of the cost of higher employer NICs in the North East. It takes into account the rise in the rate of employer NIC, the increase in the employer allowance, the distribution of organisations across the North East, as well as the level of salaries. The methodology is given in an appendix. We believe this is the first detailed attempt to produce a regional figure for the impact of the rise.

Summary of findings

The rise in employer NICs together with the higher employer allowance is estimated to add £ 19.5 million to the costs of the workforce in the region in 2025/26.

In the budget documents, the Office for Budget Responsibility estimates that initially 60% of the rise in costs will feed through to higher prices and lower wages, and 40% of the rise will reduce profits.⁴ These options are less feasible for the VCSE sector. Salaries are on average already lower than elsewhere in the economy. Often prices cannot be increased as many funding agreements or contracts are fixed in nominal terms and cannot be renegotiated. Some funders of VCSE organisations, including from within the public sector, are already saying they cannot pay more to help charities and others deal with the higher costs. Finally, the sector is by definition not for profit, hence there is no scope for organisations to deal with this through lower profit margins. Meeting the costs out of reserves is the only option, and this is not a sustainable solution.

In her letter responding to calls for the sector to be exempt from the higher costs, the Chancellor cites the increase in the employer allowance.⁵ Our analysis shows that this reduces the total bill only modestly.

¹VCSE stands for the voluntary, community and social enterprise sector.

² <https://www.ncvo.org.uk/news-and-insights/news-index/open-letter-chancellor-national-insurance/>.

³ <https://www.civilsociety.co.uk/news/chancellor-refuses-concessions-for-charities-on-estimated-1-4bn-employer-nics-rise.html>.

⁴ See pages 53-55 of the Economic and Fiscal Outlook, October 2024, <https://obr.uk/efo/economic-and-fiscal-outlook-october-2024/>.

⁵ <https://www.ncvo.org.uk/news-and-insights/news-index/chancellor-responds-to-our-open-letter-on-the-impact-of-increased-employer-national-insurance-contributions-for-charities/>.

It is possible to break down the figures further and produce estimates for each of the two combined authority regions – the Tees Valley Combined Authority and the North East Combined Authority. The table shows the figures for the whole region and this breakdown. We can also produce an estimate for the whole North East and North Cumbria NHS Integrated Care Board (ICB) area.

Cost of higher employer National Insurance contributions on the VCSE sector in the North East in 2025/26

North East Combined Authority	£ 15.6 million
Tees Valley Combined Authority	£ 3.9 million
Total North East	£ 19.5 million
Total NENC ICB area	£21.9 million

An already hard-pressed sector in the North East is going to face this £ 19.5 million increase in costs with no obvious ways to pay. This should be of concern to the whole sector as well as to those who rely on the sector, such as local authorities, the North East Combined Authority (NECA) and the Tees Valley Combined Authority (TVCA). It should also be of concern to the NHS Integrated Care Board (ICB) which relies on the sector to help tackle health inequalities.

Methodology

There are three changes to employer NICs that need to be considered. First, the rate of employer NI contributions increases from 13.8% to 15% in 2025/26. Second, the threshold at which NI contributions are levelled on employers reduces from £9,100 to £5,000 in 2025/26. Providing some offset to these two changes, the third change is an increase in the allowance employers are allowed to claim on their NI contributions from £5,000 to £10,500; this has also been extended to all organisations. The changes in the employer allowance are most helpful to relatively small organisations whose wage bill is lower.

The increase in costs for the average employee is over £800 according to HMRC. While 820,000 employers are expected to see no change because of the increased allowance, those who are affected will on average face a £26,000 increase in costs. To calculate the costs for the VCSE sector in the North East, the first step is to get an estimate of salaries of the workforce. There are no precise figures for this. We follow the practice of Professor Tony Chapman, Director of Research, Policy & Practice, Durham University.

Professor Chapman leads on the Third Sector Trends survey of the sector.⁶ He assumes that salaries in the sector are 20% lower than in the wider economy. It is possible that this is an under-estimate – the charity Pro Bono Economics calculated a figure of 7%, though this included non-financial elements of work in the sector.⁷ It is impossible to know for sure, but a figure of

⁶ <https://www.communityfoundation.org.uk/third-sector-trends/>
<https://www.stchads.ac.uk/wp-content/uploads/2022/11/Third-Sector-Trends-in-England-and-Wales-2022-structure-purpose-energy-and-impact-November-2022-2.pdf>

⁷ <https://civilsocietycommission.org/publication/pay-gaps-in-the-charity-sector/>

20% discount to earnings in the wider regional economy is perhaps high – this would mean our calculation of the cost of higher NICs is an under-estimate of the true figure.

The next step is to calculate the cost of higher NICs for an employee on typical earnings. We do our own calculation for this, cross-checking against the IFS calculator for this.⁸ Employer NICs rise by £842 for the average VCSE sector employee.

The estimate of the total number of employees in the sector is taken from the as yet unpublished Third Sector Trends Survey for 2024. The figure is 37,602 FTE (full-time equivalents). It is higher than the figure from the Charity Commission as it includes CICs and Friendly Societies in order to cover the whole VCSE sector. The number should be seen as an estimate only; there are no precise figures for the workforce of the sector. Compounding this problem, we only have survey evidence on proportions of part-time and full-time workers.

We assume these employees are allocated across all organisations in proportion to turnover. This allows us to take into account the increased employer allowance. We calculate the cost of employer NICs before and after the changes for different sizes of organisations according to their estimated number of employees. Organisations with relatively small workforces will see little or no increase in employer NICs because the higher rate of contributions will be offset by the increased allowance. At a certain size of organisation and number of employees, this flips – higher contributions exceed the increase in the allowance. We then aggregate the levels of NI contributions across organisations before and after the increases announced in the budget.

In doing this exercise, we exclude the very largest organisations because much of their work is likely to be outside the North East. However, some of their employees will be based in the region. Again, this serves to push down our estimates of the cost of higher employer NICs.

Combining these steps produces an estimate of the net cost of the rise in National Insurance contributions. The net cost to the VCSE sector from the increase in employer National Insurance contributions is estimated to be £ 19.5 million in 2025/26.

Each step in the calculations to produce this estimate involves using imperfect data; the more steps taken, the greater the errors that may be introduced. However, some of the steps we take are deliberately conservative, and likely to under-estimate the true costs. Therefore, the figure of £ 19.5 million might be a low estimate. No one has precise figures. This note represents the best attempt to calculate the cost of this increase in employer NICs for the VCSE sector in the North East. They highlight that these costs are substantial.

Breaking the total between the two combined authority areas is the next task, after which we produce a figure for the ICB area which covers the North East and North Cumbria.

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⁸ <https://ifs.org.uk/data-items/increase-employer-national-insurance-contributions-employee-earnings-2025-26>.