Budget 2025 – 26 November 2025

This much trailed Budget contained some welcome positive announcements on policy changes and introduction of new funding, but also some that will be challenging for the VCSE sector and society as a whole, particularly in relation to tax. This brief covers the announcements relevant to local infrastructure and the VCSE sector.

Universal Credit and Wages

The two child limit will be removed from Universal Credit in April 2026, taking 450,000 children and an estimated 150,000 adults out of relative poverty.

Working age benefits will be uprated in line with the September CPI inflation of 3.8% from April 2026.

The National Living Wage will increase by 4.1% to £12.71 per hour for those aged over 21. The National Minimum Wage for 18-20 year olds will increase by 8.5% to £10.85 per hour and for 16-17 year olds and apprentices by 6.0% to £8.00 per hour. The accommodation offset will increase by 4.1% to £11.10 per day. This increase for the low paid is very welcome but poses challenges for those in the VCSE sector where grants and contracts have not had the same automatic uplift to cover additional employment costs, putting further pressure on stretched finances.

The amount of pension contributions that can receive relief from employee and employer national insurance contributions [NICs] via the Salary Sacrifice scheme will be limited to £2,000 per year from 6 April 2029. Any contributions made above £2000 by salary sacrifice will be charged both employee and employer NICs. Charity Finance Group are currently conducting a survey to assess the potential impact on the sector. You can respond here.

Charity Tax Relief on Donated Goods

A new VAT relief will be introduced from 1 April 2026 for business donations of goods to charity for distribution to those in need or for use in the delivery of their charitable services.

The new VAT relief for business donations of goods to charity will come into force on 1 April 2026. To support effective implementation, HMRC will publish detailed guidance for businesses and charities on how to use the relief and comply with the associated requirements. This relief will make it easier for businesses to donate surplus goods, helping charities to deliver their services and provide essential items to those who need them most. There will be a per item value limit of £100, over which the VAT relief will not apply. A higher limit of £200 will apply for a specified list of essential goods such as white goods, furniture, computers, mobile phones and tablets. The relief will apply to goods donated for both onward distribution and for use in the delivery of a charity's non-business services allowing charities flexibility to maximise their impact.

The VAT relief will apply to goods donated to charities registered with HMRC for tax purposes and where required, registered with the Charity Commission. VAT relief will apply to charities and CIOs but not CICs or social enterprises. Also, small VCSE organisations that are not required to be registered are also excluded from these provisions due to absence of regulatory oversight over their accounts and trustees, which HMG thinks presents a significant fraud risk. However, unregistered groups that wish to benefit from the relief can do so by registering with HMRC as charities for tax purposes. The registration process is designed to be straightforward and proportionate for smaller organisations. HMRC will provide guidance on how they expect businesses to evidence their entitlement to the relief and the certification required from a charity receiving donations. More information is available here.

Department Spending Limits

There has been a further reduction in day-to-day spending by government departments over an extended period to 2030-31, a total of £4.9bn. The Department Expenditure Limits [DEL] have increased for the Department of Health and Social Care, Education, Justice, Local Government, MHCLG, Home Office and Defence. DCMS have a small increase but there are cuts to Transport, Energy and fairly significantly to the Department of Environment, Food and Rural Affairs.

Local Finance and Investment

Integrated Settlements for Mayoral Strategic Authorities. £13 billion of Spending Review 2025 [SR25] funding for Greater Manchester, West Midlands, West Yorkshire, South Yorkshire, Liverpool City Region, the North East, and the Greater London Mayoral Strategic Authorities for 2026-27 to 2029-30. The integrated settlements will enable delivery against the seven areas of competence, giving greater funding flexibility. More information is available here and here.

Place-based budget pilots. There will be five pilots with Mayoral Strategic Authorities to test how the pooling of public service budgets in local areas could break down siloes, unlock more funding for prevention and help deliver better outcomes for taxpayers.

Mayoral Revolving Growth Fund is a strategic investment partnership which will see central government and Mayors sharing risk to overcome access to finance barriers in key city regions, accelerating investment, unlocking development and boosting growth. A share of the £500 million Mayoral Revolving Growth Fund will go to the Mayoral Strategic Authorities of Greater Manchester, West Midlands, Liverpool City Region, North East, West Yorkshire and South Yorkshire.

Local Growth Fund will be launched for the Mayoral Strategic Authorities of Greater Manchester, North East, West Midlands, South Yorkshire, West Yorkshire, Liverpool City Region, Greater Lincolnshire, Tees Valley, Hull & East Yorkshire, York & North Yorkshire and East Midlands. These strategic authorities will each receive a share of £902 million over four years to invest in growth-driving interventions, including local infrastructure, business, and employment support and skills programmes.

Whilst the emphasis on local investment and flexible use of funding is welcome it is only available to areas with a directly elected mayor, and with a combined authority considered mature enough by government to receive and use the funds. This means that areas outside the targeted areas will not have access to these investment funds. The Growth Mission Fund is available for areas outside Mayoral Authorities, but funds are limited to specific projects e.g. £16 million for the construction of a STEM centre in Darlington. There is £30m to establish the Kernow Industrial Growth Fund to invest in Cornwall, subject to a full business case. As previously announced UK SPF will end in March 2026 and there is no replacement for the fund.

Visitor levy. The government will give Mayors in England powers to raise a visitor levy on overnight accommodation, and explore whether this power can be extended to the leaders of other strategic authorities. The government is consulting on the design of the levy. More information is available here.

Proposals to reform **special educational needs provision** are expected early in the new year. Government will not expect local authorities to fund future costs after April 2028 and will also take on the deficits accrued by many councils. This will lift the risk of some councils going into special financial measures or issuing a section 114 notice.

The government will invest £18m over two years in up to 200 **playgrounds** across England, as part of the Pride in Place Strategy.

The newly established **Office for the Impact Economy** will identify early opportunities to partner with the impact economy to crowd fund more capital investment and support into the Pride in Place strategy, to strengthen and scale activities to give every child the best start in life and diversify the children's social care placements market.

Jobs and Skills

Youth Guarantee and Growth and Skills Levy. The government is making available more than £1.5 billion for additional employment and skills support, and the Growth and Skills Levy, over the spending review period. This will ensure young people have access to high-quality training opportunities and the support they need to earn or learn, alongside measures to simplify the apprenticeship system and make it more efficient. Further details will be announced shortly.

Youth Guarantee: Jobs Guarantee scheme. The government will guarantee a six-month paid work placement for every eligible 18-21 year old who has been on Universal Credit and looking for work for 18 months. This will cover 100% of employment costs for 25 hours per week at the relevant minimum wage, with additional wraparound support.

Health

NHS Neighbourhood Health Centres. There will be 250 new Neighbourhood Health Centres, of which 120 will be operational by 2030. These 'one stop shops' will bring the right local combination from GPs, nurses, dentists and pharmacists together to meet the needs of the community, starting in the most deprived areas. This will be delivered through the NHS Neighbourhood Rebuild Programme through a combination of public sector investment and a new model of Public-Private Partnership. More information is available here.

Funding from the spending review 2025 will be brought forward to support the abolition of NHS England.

An additional £300m capital investment for NHS technology to support NHS productivity and improve patient outcomes.

To read the full Budget 2025 documents go to:
https://www.gov.uk/government/publications/budget-2025-document/budget-2025-html