Haines Watts

Charity News

Spring 2022

A roundup of the latest accounting, taxation and governance issues that impact how you run your charity

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With the rising cost of living and the ongoing war in Ukraine, the last six months has really shone a spotlight on how crucial the not for profit sector truly is.

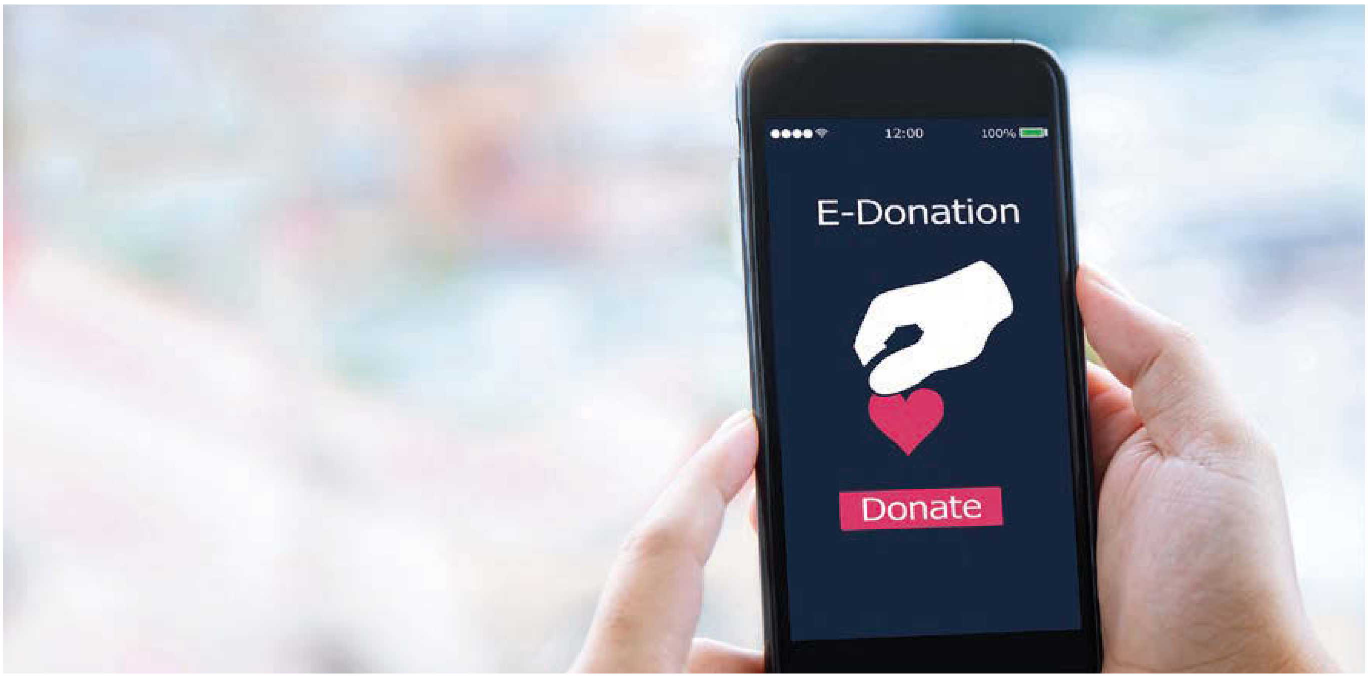
With guidance on everything from fraud awareness, forward planning and charity governance, we hope that the insights below will prove useful in the months ahead.

As always, we're here to support you. If you have any questions or queries on the insights below, please do get in touch.

Donna Bulmer

Donna Bulmer,
Group Chair and Head of Not For Profit Committee

Donna heads up our National Not for Profit Committee, as well as sitting on the Haines Watts National board. Having worked in the profession for over 25 years and has a proven track record in audit, accounting and general advice to the charity sector.
She has vast board level experience and volunteers as a trustee (treasurer) for a number of charities in the North East, giving her a strong understanding of what constitutes good governance.



Our Charity News includes the latest guidance and support available for the not-for-profit sector as COVID-19 restrictions come to an end and trustees start planning for the future. We also consider the impact of recent legislative, reporting and tax developments and other pertinent issues, giving you the inside track on the sector's current hot topics and latest guidance.

The newsletter is applicable to the whole of the United Kingdom and makes reference to the three UK charity regulators:

- the Charity Commission for Northern Ireland (CCNI)
- the Office of the Scottish Charity Regulator (OSCR) and
- the Charity Commission for England and Wales (CCEW).

All the articles may be of interest; however, to aid you we have included the following key:

Key

- United Kingdom
- England
- Wales
- Scotland
- Northern Ireland

Hot topics

Looking back, and planning for the future

There have been several false dawns during the COVID-19 pandemic, but with the recent removal of restrictions across the UK it is hoped that finally an end to the disruption to the charity sector caused by the pandemic is now in sight.

Research published by CCEW indicates the extent the pandemic has had on the sector. Whilst nearly all charities have been impacted in some way by the pandemic, the surprising conclusion to the research is that a majority of charities expect to be in the same or better position regarding their financial viability when compared to two years ago. Some of the other headlines from the research include:

- 85% of charities reported that the pandemic had impacted on the delivery of the services they offer, whilst 72% noted an impact on their financial position and 66% on staffing and governance.
- 57% of charities had to cancel work or events during the pandemic, and 49% had lost income from fundraising activities and a majority of charities had lost income from charitable activities.

- Nearly a third of charities stated that access to volunteers had reduced.

With the pandemic now (hopefully) behind us the time is ripe for charities to start planning for the future. In doing so they may find a new publication from Charities Aid Foundation in partnership with the ICAEW helpful, entitled 'What's on the horizon for charity trustees?'. The report sees reasons for the sector to be optimistic, highlighting the opportunities that exist as well as challenges that are present. These challenges have set out in six key areas:

- Maintaining financial resilience
- The importance of working together
- The benefits to be obtained through diversity
- The need for support and training
- Going digital
- Achieving sustainability

As trustees formulate their future strategy they would be well placed to consider these areas and ensure that they are reflected in their plans.

Separately the NCVO has published its Road Ahead report for 2022, their annual analysis of the changing environment, identifying the forces and trends that are likely to impact on the voluntary sector using a PESTEL analysis (Political, Economic, Social, Technological, Environmental and Legal). This too can help trustees formulate their strategic plans. Inevitably there is some overlap with the CAF's research but they identify five key areas to consider:

- The culture wars and attempts to divide the voluntary sector
- Shifting conversations on climate
- Rebalancing our society
- Strengthening our ties to those nearby
- How we live our lives

Of imminent concern to many charities will be rising rates of inflation and how this could impact on charity finances, with rising costs and income levels unlikely to keep pace, as well as increasing demand for services as many struggle with the rising cost of living. These issues are summarised in recent guidance from Pro Bono Economics which urges charities to reassess their plans to reflect the higher rates of inflation that are predicted to last for the next couple of years.

Details:

CCEW Covid-19 survey	https://bit.ly/3MAWdpp
CAF guidance	https://bit.ly/3MDJhzd
NCVO guidance	https://bit.ly/360QWXm
Inflation study	https://bit.ly/3J2FvwX

Charities' response to the war in Ukraine

No one could fail to be moved by events in Ukraine, and many trustees will be considering if the war impacts on their charity in any way and whether there is anything they can or should be doing in response.

Both CCEW and OSCR have now published guidance for charity trustees on the key areas that they should be considering in response to the war, including:

- How best to support the Ukrainian people, noting considerations around charitable purposes and the need for suitable financial controls;
- Reviewing IT and cyber security arrangements in line with recommendations recently made by the National Cyber Security Centre; and
- Awareness of the sanctions regime if the charity has interaction with any Russian organisations or individuals.

Guidance:

CCEW	https://bit.ly/3wdgRGk
OSCR	https://bit.ly/3tHOSvJ
Cyber security	https://bit.ly/3tFprux

Kids Company: Lessons to be learned

In February CCEW published its long-awaited report into Kids Company, one of the highest profile charity collapses of recent years that attracted considerable publicity, in part due to the considerable amount of funding it had received from central and local government sources. Publication of the report was delayed due to ongoing legal action seeking to disqualify the former trustees and chief executive as company directors, action rejected by the High Court last year.

CCEW found no evidence of misconduct by the trustees, although did note that repeated failures to pay staff and HMRC on time amounted to mismanagement. The report also highlighted:

- The charity's risky demand-led model when it lacked the necessary level of reserves to support this.
- A lack of transparency when disclosing the number of beneficiaries the charity supported.
- A lack of expertise at board level in specialist areas such as youth services and psychotherapy
- Concerns over the destruction of records by staff when the charity collapsed.

The CCEW's report sets out a number of issues for the wider sector to consider that primarily cover charity governance and the need for financial stability. Trustees should consider these issues and determine whether there is any action they should be taking to avoid falling into the same traps that befell Kids Company. The report specifically mentions the following:

- Charity boards should ensure checks and balances, and the right blend of skills and knowledge, are in place to avoid power imbalances.
- Charities of all sizes could consider setting an agreed term of office for trustees to bring in fresh perspectives and to avoid complacency, with longer appointments subject to review with clear evidence that the charity had considered the risks and benefits in what should be exceptional circumstances.
- Diversity at board level leads to better decision making and greater breadth of experience and specialist knowledge enables the board to better question management's decisions.
- Charity's should identify and balance the risks associated with innovative operating models, and evidence the benefits.
- Charities should undertake financial planning and recording, including maintaining a reserves policy.
- Charities should ensure infrastructure, governance and resources keep pace with growth.

Details:
https://bit.ly/3pSk6Po

Fraud awareness

We all learn from our mistakes, but perhaps it's better if we can learn from the mistakes of others without having to experience them ourselves first hand. Two major frauds involving charities have been in the news recently.

The first involved the British Society of Echocardiography, where the charity's finance officer stole over £200,000 of the charity's funds to support his gambling addiction. For a charity with incoming resources of £926,760 according to its latest accounts this is a considerable sum of money. Following conviction the finance officer was sentenced to three years in prison.

A similar sentence was handed down to a former manager at the charity Autism East Midlands who stole more than £145,000 from her employer over a seven year period, spending the money on holidays for friends and family, electrical goods, days out and concert tickets. The fraud involved the creation of false invoices and fabricating the number of hours delivered to local authorities resulting in them being overcharged.

What both of these instances have in common is the level of trust placed in a single individual in a small charity, without adequate controls in place to prevent and detect fraudulent activity.

The actual level of fraud in the charity sector according to the latest data published by Action Fraud showed 1,059 separate incidents reported by charities during the year to March 2021 with over £8.5 million of funds being lost. Much of this will have arisen as a result of payment diversion fraud and the National Crime Agency (NCA) has recently repeated its warnings in this area, producing a one page summary setting out the warning signs that charities may find useful in highlighting the issue across their organisation.

Separately, the National Cyber Security Centre (NCSC) has developed a free online training tool for small organisations and charities to guide users through the actions that need to be taken to reduce the likelihood of becoming a victim of the most common cyber attacks.

Guidance:

NCA https://bit.ly/3CsnxBr
NCSC https://bit.ly/3JcGvP4

Safeguarding guidance

CCEW has published summary guidance on safeguarding for charities and trustees, setting out their responsibilities to keep everyone who comes into contact with the charity safe from harm. It includes links to more detailed guidance in areas such as identifying and managing risks, having robust safeguarding policies and handling incidents or allegations of abuse.

The more detailed guidance on safeguarding has been updated to include specific information on the safeguarding risks that can arise from operating online and the need to protect people from abuse and protect sensitive information.

Guidance:

https://bit.ly/3Ku1woD

https://bit.ly/3IZhAyy

Charity law reform

In our last edition we reported on the reforms set out in the Charities Bill 2021. This legislation has now completed its parliamentary journey, becoming the Charities Act 2022.

To recap, this new legislation (which only applies to England and Wales) implements a number of recommendations from the Law Commission's 2017 Technical Issues in Charity Law Report which seek to make life easier for trustees and help them to maximise the benefits that their charity is able to deliver. The principal reforms seek to:

- Make it easier to amend a charity's governing documents
- Simplify and add greater flexibility for charity's entering into land transactions
- Changes to the regulations governing permanent endowments
- Allowing trustees to be paid for goods provided to a charity in certain circumstances
- Relaxed rules around making ex gratia payments without prior CCEW approval
- Removing some of the legal barriers to charity mergers

Although the Act came into force on the day it received Royal Assent, 24 February 2022, to be able to deliver these reforms requires a number of changes to CCEW's systems and processes along with secondary legislation, and a plan is in place to gradually implement these between now and Autumn 2023.

Legislation:
https://bit.ly/3pPuJCJ

Separately, the Dormant Assets Bill has also now received Royal Assent, becoming the Dormant Assets Act 2022. This expands the existing dormant assets scheme to include the insurance, pensions, investments, wealth management and securities sectors, looking to raise an estimated £880 million for good causes. Although the scheme operates across the UK, a consultation process will be launched this summer to consider what additional causes in England will be able to benefit from the scheme.

Legislation:
https://bit.ly/3IZ8mSK

Receiving Royal Assent on 30 March The Charities Act (Northern Ireland) 2022 has now come into force. This legislation has been introduced in response to a Court of Appeal ruling in 2020 that found that decisions made by CCNI staff were unlawful. The Act will make lawful over 7,200 decisions which had been made in good faith by CCNI staff, and will effectively reinstate the full register of charities and provide certainty as to which organisations are registered charities in Northern Ireland. It will also improve transparency by reinstating annual reporting by charities.

Separately an independent review of charity regulation in Northern Ireland has now been completed, making 93 recommendations on changes that could be considered to improve the delivery of services by CCNI and the operation of the regulatory framework. The Department for Communities is considering the recommendations and will publish its response in due course.

Details:
https://bit.ly/3sTp0xI
https://bit.ly/3J0KGgM

Company law reform

Those charities which take the form of limited companies may be interested to know that the government has now published a white paper setting out their position on reforming Companies House ahead of introducing legislation into Parliament, following a consultation process that took place over the winter of 2019/20.

The key changes that are being proposed include:

- Expansion of the role of the Registrar of Companies beyond the current remit of registering company information to include a new function to maintain the integrity of the register of companies and the UK business environment. This will include powers to query suspicious appointments or filings, request further evidence or reject the filing. There will also be more extensive legal gateways for data sharing with law enforcement agencies.
- The introduction of identity verification for those setting up, managing and controlling companies, to make anonymous filings more difficult and discourage those wishing to hide their company ownership through nominees or opaque structures.
- Enhancement of privacy mechanisms across the register.
- Improvements to the financial information available on the register, requiring full iXBRL tagging of accounts information on the register. Filing deadlines for submitting company accounts though will not be changed at this time, which for charitable companies will mean the existing nine month filing deadline will remain in place.

Details:
https://bit.ly/37lftqZ

Charity governance

An updated 3rd edition of the Code of Good Governance for voluntary and community organisations in Northern Ireland has been published by the Developing Governance Group, formed from a number of organisations that provide support across the sector. The Code sets out five key principles of good governance for charity trustees to adhere to:

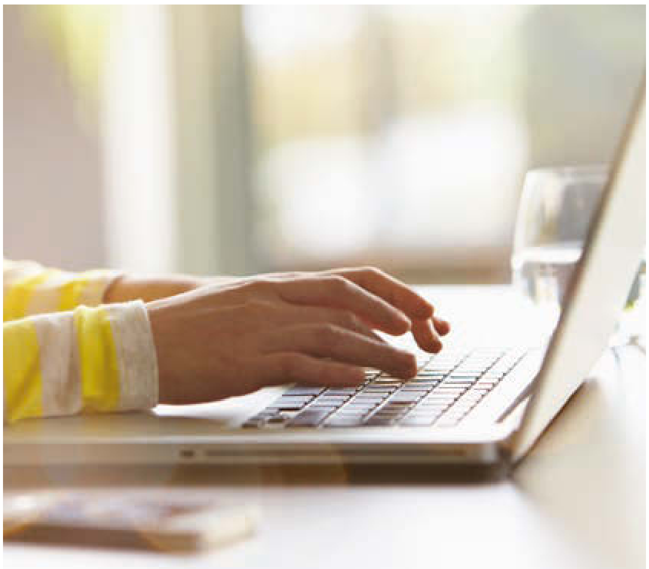
- Understanding the board's function in delivering organisational purpose
- Working as an effective team
- Maintaining control, making effective decisions and managing risk
- Acting with integrity
- Being open and accountable

Guidance:
https://bit.ly/3Cwn4hU

Fundraising regulation

The Fundraising Regulator, which oversees charitable fundraising in England, Wales and Northern Ireland, has developed a self-reporting tool so that charities can inform the regulator of any known or potential breach of the Code of Fundraising Practice where in poses an actual or potential risk to the public, the charity sector or public confidence in fundraising. There is no formal obligation to self-report incidents to the regulator, but doing so can enable them to advise on the appropriate steps to be taken as a consequence of the breach.

Guidance:
https://bit.ly/3IZlUh0



The Scottish fundraising regulator has rebranded, and is now known as the Scottish Fundraising Adjudication Panel. As part of its rebrand the regulator updated its website with improved functionality and a new members' area where resources can be accessed,and has aIso amended the Fundraising Guarantee logo that charities registered for the Good Fundraising Guarantee can use in their publicity. The functions of the regulator though remain unchanged, to oversee fundraising standards in Scotland and address any complaints made regarding fundraising practices.

Details:
https://bit.ly/3KuDpGx

Accountancy and tax update

Issues arising from the Ukraine crisis

Preparers of charity accounts need to be aware of how the Ukraine crisis could affect their reporting. The ICAEW has published guidance on the key issues that should be considered, which although not written with charities specifically in mind may be of use for those currently preparing accounts for charities that have been affected by the conflict. Areas to focus on include the impairment of assets, disclosure of post balance sheet events and the need for adequate narrative reporting, which for a charity could include the need to explain in the trustees' report how the conflict has impacted on the activities undertaken by the charity, the implications for its financial position and how future plans have been affected.

Guidance:
https://bit.ly/3thN25L

Climate-related disclosures

New climate-related disclosure requirements come into force for accounting periods beginning on or after 6 April 2022. Only a handful of charities though will be caught by these requirements, those which are limited companies and have more than 500 employees and have incoming resources of more than £500 million. These requirements, which are based on recommendations made by the Task Force on Climate-Related Financial Disclosures (TCFD), focus on the company's governance, strategy and risk management on climate issues as well as the metrics and targets used to assess the impact of climate-related risks and opportunities.

Many more charities will be subject to the existing Streamlined Energy and Carbon Reporting regulations, which apply to large companies, broadly those that exceed two out of three thresholds of income of £36 million, gross assets of £18 million or 250 employees. Guidance on these requirements was set out in Information Sheet 5 published by the SORP Committee in 2020.

Although the majority of charities are not currently subject to any mandatory reporting requirements on energy usage or the impact of climate change on their activities there are still potential climate-related reporting implications that trustees need to consider, perhaps the most obvious of which is need for larger charities with income over £500,000 to disclose details of the principal risks and uncertainties facing the charity as part of the trustees' report, which would include any risks and uncertainties caused by climate-related issues. Trustees should though also consider the information needs of the users of their annual reports, acknowledging that increasingly this will involve the charity being judged on its green credentials. Providing the disclosure required by the SECR regulations on a voluntary basis may be a good place to start.

Details:
TCFD https://bit.ly/3tIrmP5
SECR https://bit.ly/3hUG6Vs

Spring Statement 2022

On 23 March the Chancellor made his Spring Statement, which contained a number of tax measures of interest to charities. The most significant of these is a planned reduction in the basic rate of tax to 19% to take effect from April 2024. This will impact upon the amount of Gift Aid charities will be able to claim on relevant donations, reducing the amount that can be claimed. Fortunately though a three year transition period will apply, deferring the impact of the change and saving the sector an estimated £250 million. There is currently uncertainty as to whether the transition rules will also apply to the small donations scheme.

Note that the change to the basic rate of income tax does not apply to Scotland as the power to set tax rates is devolved to the Scottish Government.

For those charities that are employers it was confirmed that the planned rise in national insurance rates coming into force in April 2022 will remain, but from July 2022 the annual primary threshold will increase from £9,880 to £12,570 which will reduce the amount of national insurance employees are required to pay. Employers will be able to benefit from an increase to the employment allowance to £5,000 per year from April.

A temporary cut to fuel duty of 5p per litre on both petrol and diesel was announced and took effect from 23 March, designed to reduce the impact of increasing fuel prices, caused in part by the war in Ukraine.

Although these changes are welcome, whether they go far enough to help with the rapidly increasing cost of living remains to be seen. With inflation now at 6.2% based on the Consumer Prices Index in February many charities are facing increased costs at the same time as they are experiencing increased demand for their services. Charities will need to manage their finances with considerable care for some time yet.

Details:
https://bit.ly/3IITdUX

Retail, Hospitality and Leisure Business Rates Relief Scheme

Details have been published of how the Retail, Hospitality and Leisure Business Rates Relief Scheme will work. The scheme only applies to England, and it will only apply for the 2022/23 financial year. The scheme will provide a 50% reduction in business rates for eligible properties up to a limit of £110,000 per corporate group.

Eligible occupied properties are those which are wholly or mainly being used as:

- Shops (including charity shops), restaurants, cafes, drinking establishments, cinemas or live music venues.
- For assembly or leisure (including museums, galleries, theatres, sports and leisure facilities, village halls and community centres).
- hotels , guest and boarding premises or self-catering accommodation.

The relief is calculated after any existing mandatory or discretionary reliefs, so for example a charity shop that is already benefiting from the 80% charity relief will for one year receive an additional 10% relief.

Details:
https://bit.ly/35YYry2

Living wage

All employers are required to pay their staff either the National Living Wage (for those aged 23 and over) or National Minimum Wage (for those of at least school leaving age). The Living Wage Foundation is a charity that campaigns for improved rates of pay for those on low wages, with accredited employers, including many charities, committed to paying their staff at pay rates of at least real living wage as termined by the Foundation.

In November last year the Foundation announced that based upon independently calculated rates based on what people need to live on the real living wage was now £11.05 for those living in London and £9.90 elsewhere in the UK, which is considerably greater than the hourly rates required to be paid by law. With inflation increasing rapidly it's likely that these figures are already out of date.

In its recent Life on Low Pay research the Foundation found that almost two-fifths of low-paid workers reported falling behind on household bills in 2021, and nearly a third of low-paid workers regularly had to skip meals for financial reasons. Statistics such as these demonstrate the increasing pressure that many charities such as those operating food banks are facing as demand for their services continues to rise.

Details:
https://bit.ly/3t54GJX

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