

# Charity update



Welcome to another edition of our Charity update. There is so much going on in the third sector at the moment for charities to keep

abreast of – in addition to our main articles here are some more issues to keep on top of:-

- From 2011 onwards all charities are being asked to submit the Annual Return required information online, via the Charity Commission's website. The Charity Commission aims to provide all its services online by 2012;
- A new accounting standard is proposing that stock in charity shops will have to be valued as soon as it is received. Under existing rules, charities do not have to account for the value of unsold stock;
- It is expected that the new SORP will apply to charity accounts for financial years starting in July 2013 or later; and finally
- CIO's are still in progress – watch this space for updates.

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## Grants and VAT

In most cases grant funding is not a consideration for any supply made by the charity because it is outside the scope of VAT. However, there are some important exceptions. If the funding body receives any direct benefit, or if the funding is consideration for supplies to third parties, then there could be a VAT liability. This will depend on the precise circumstances, but it could have a number of possible implications. For example, it might:

- reduce the value of the grant to the charity;
- bring the charity's taxable turnover above the VAT registration threshold, requiring them to register for VAT;
- bring the charity into partial exemption if the supply is exempt from VAT;
- affect the charity's input tax recovery.

Funding agreements invariably require certain conditions to be met, and these may be laid down in an agreement that resembles a contract for services, but this does not necessarily mean that there is a supply that is within the scope of VAT.

In the current climate of government cut-backs, obtaining new funding will be tougher than in the past, and new agreements may have different terms and conditions which could change the VAT treatment from being outside the scope to a supply for VAT purposes, or vice versa. Either situation could have a large impact on the charity's income and its ability to recover input tax, or possibly trigger a VAT registration requirement.

Determining the VAT liability of any funding can be complex, but we can assist in this area. Please contact us at [charities@broomfield.co.uk](mailto:charities@broomfield.co.uk).

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## Gift Aid changes

Gift Aid transitional relief, worth 2% of relevant donations, ceased on 5 April 2011. Despite proactive lobbying, there will be no extension.

It had been hoped that online filing of Gift Aid returns would be available soon; HMRC say that they are exploring this, but any such system would take at least 18 months to develop.

HMRC also plan to launch some "intelligent forms", which they believe will help charities to make more accurate claims and avoid errors.

## Serious incident reporting

All charities with income exceeding £10k are required to report serious incidents to the Charity Commission. However, trustees of charities with an income of over £25k must declare in their annual return that they have already reported serious incidents to the Commission.

To make this declaration, trustees must understand which incidents should be included – a serious incident is one which has resulted or could result in a significant loss of funds or a significant risk to a charity's property, work, beneficiaries or reputation. Detailed guidance can be downloaded from the Commission website. The Commission received 451 serious incident reports in 2009 -10; a figure they believe is under-reported.

## New SORP

It is expected that the new SORP will apply to charity accounts for financial years starting in July 2013 or later. The new SORP is expected to be introduced at the same time as those for registered social landlords and universities.

## Charity Trustees

Being a charity trustee can be highly rewarding and it is a great way to give something to a cause that you feel passionate about. However, it is never a position that should be taken on lightly.

As a trustee of a charity you share, along with your fellow trustees, a collective responsibility for directing the affairs of the charity and delivering the charitable outcomes for the benefit of the public.

Specifically as a trustee you must ensure that the charity is compliant with all relevant regulations, that you act with a duty of prudence and that you act with a duty of care.

### Compliance

Compliance is sometimes seen as putting the right ticks in the right boxes and is often outsourced by the trustees to professional organisations. Getting it right is crucial as failure to do so can result in hefty penalties.

As a trustee you must ensure that the charity complies with charity law, and company law for those that are incorporated. You must also ensure that the requirements and regulations in the governing document, which set out what the charity does and how and where it does it, are adhered to. Many charities will also be subject to regulation by other organisations such as HMRC, so it is crucial you ensure the charity is fully compliant. As a trustee you must act, at all times, with integrity and avoid personal conflict of interest and the misuse of charity assets.

EXAMPLE – Application of Income. When planning the charitable activities for the coming year the trustees must give due consideration to whether the purposes in the governing document are being met, who the beneficiaries will be and whether the income is applied fairly between beneficiaries. If the trustees are anticipating an excess of charitable income over expenditure they must ensure that they have the authority to accumulate funds and that these funds are held in a suitable form, for example cash and investments. The trustees must also ensure that any income generated from a specific fundraising campaign is separately accounted for and applied to the purpose for which it was raised.

### Duty of Prudence

In fulfilling your duty of prudence, you, as a trustee, must ensure the charity is solvent and well run, that funds and assets are used solely to further the charity's objects and that you avoid placing the charity under undue financial or reputational risk.

EXAMPLE – Land and Buildings. If a charity owns a property which is used to generate income the trustees must ensure that the property is used for an appropriate activity, that the charity gets the maximum return for its assets and that the insurance and up-keep of the property are sufficient to ensure that the future of this income stream is not put at risk.

### Duty of Care

Being a trustee is much more than turning up to board meetings. All trustees must have sufficient time available to dedicate to their role and must use care and skill to ensure the charity is well run.

This includes recognising when getting external professional advice is appropriate. While it may take years to build up a charity's reputation it can be ruined overnight if sufficient care isn't taken over an important decision.

Please contact our charities team on [charities@broomfield.co.uk](mailto:charities@broomfield.co.uk) if you would like any further information.

# Liquidity Management

The Charity Commissions guidance suggests that *“Money not needed for immediate expenditure should be invested. We recommend that if expenditure is expected in the near future, surplus cash is deposited to earn interest.”*

Charities and other not-for-profit organisations need to focus on robust liquidity management as part of the overall investment approach to meet their strategic aims. Trustees have a duty to ensure that the organisation operates within its financial parameters. Historically, liquidity management hasn't been given the consideration that it requires but in the current environment, there is no room for complacency.

Cash deposits and related investments are defined by a short-term investment horizon and a cautious attitude to risk. The liquidity allows you to meet financial obligations and take advantage of new investment opportunities at short notice. Cash deposits and related investments are low risk and rarely lose capital value and produce regular returns from interest payments. This makes them particularly useful in uncertain or turbulent markets.

The recent global financial crisis has had a significant effect on how not for profit organisations view and manage their longer term cash reserves and shorter term investments.

There are many different types of investment at this end of the investment spectrum, choosing the right mix of these investments is essential. Short term liquidity needs necessitate lower risk and perhaps instant access however longer term the negative return on cash deposits means that alternatives need to be considered.

Those with significant funds have the option to move into higher risk profile investments. The turbulence in the market over the last two years and the substantial demand from individuals, charities and corporate organisations for low risk high income producing assets, have meant that banks have continued to innovate in this space.

If you are in a position of strong reserves you should ensure that you give full consideration to your investment strategies and review what's currently out there in the marketplace.

(Article by Tony Disley - Barclays Head of Charities )



# Bribery Act 2010

The Bribery Act 2010 modernises the law on bribery. A quick guide together with comprehensive guidance is available on [www.justice.gov.uk/guidance/bribery.htm](http://www.justice.gov.uk/guidance/bribery.htm).

You will not commit the offence of failing to prevent bribery if you can show that your organisation had 'adequate procedures' in place to prevent bribery.

The guidance indicates six principles to help you decide what, if anything, you need to do differently and these are set out in the quick start guide:

1. Proportionality
2. Top level commitment
3. Risk assessment
4. Due diligence
5. Communication
6. Monitoring and review

Hospitality is not prohibited by the Act.

Facilitation payments are bribes under the Act just as they are under the old law.

This Act came into force on July 1, 2011.

If you would like further information on the new legislation and how it affects you and your business then please contact our charities team on [charities@broomfield.co.uk](mailto:charities@broomfield.co.uk)

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## Sage 50

Improvements have been made to Sage 50 Accounts to assist charities. Sage 50 Accounts Charity Accounting Module can provide important analysis throughout the year, helping manage the funds and activities of the organisation easily and effectively.



### Managing your funds

By setting up fund records there is the means to track the income and expenditure of the funds being managed. As income and expenditure is recorded the relevant fund can be assigned to a transaction.

Funds can be categorised as Restricted, Unrestricted or Endowment to support SOFA reporting and enable easier fund management.

### Statement of Activities (SOFA)

As a non-profit making organisation the nominal accounts must be associated with SOFA categories, this enables the SORP reports to be generated. There is a standard set of SOFA categories but these can be changed to suit your needs.

### Gift Aid Management

Gift Aid Management is made easier to help maximise the opportunity to reclaim tax on donations.

Sage 50 Accounts can generate an HMRC approved Gift Aid Return that can be submitted directly to HMRC.

### Financial Reporting

A package of charity specific reports are provided to monitor activity against any fund, including a Profit and Loss and Balance Sheet by Fund, as well as Fund nominal activity.

### Managing your projects

A project costing feature is available to provide a further level of control when managing projects of the charity. This feature allows income and expenditure to be associated with each activity type for a given project.

If you would like any information regarding Sage 50 Accounts then please do get in touch with [sagesolutions@broomfield.co.uk](mailto:sagesolutions@broomfield.co.uk) for more information.

## The future of cheques

On the 12th July the Payments Council announced that cheques will continue for as long as customers need them. It also said that the target for the abolition of cheques in 2018 has been cancelled.

