CHARITY NEWS

2024 SPRING

Infinitas

Chartered Accountants and Business Advisers

Unit 6, Kettering North Business Park, Cherry Hall Road, Kettering NN14 1UE
01536 609890
info@infinitasaccountants.com
infinitasaccountants.com

Infinitas

Chartered Accountants and Business Advisers

Caroline Armstrong

Caroline has worked in the charity and audit sector for over 20 years as an FCA and Audit RI. Caroline enjoys being part of the Trustee's delegated function working collaboratively with the management team to deliver the strongest position for her clients. From compliance, to advice and training, Caroline is ready to tailor support to meet her clients needs and bring her wealth of experience and onward network of support.

Victoria Gillingwater

Victoria is our Client Director, managing and directing services to charity clients. Victoria has worked in the charity and audit sector for approaching 10 years supporting people, systems and processes to deliver the charitable objectives.

Marie Burton

Marie is a qualified accountant that manages internal audits and supports on external audits. Marie's specialist areas are management accounts, payroll and VAT.

Our Charity News provides updates on the latest guidance and support for the not-for-profit sector, featuring a variety of new guidance released by charity regulators. Additionally, we examine the impact of recent legislative changes, reporting requirements, tax developments, and other relevant issues, offering insight into the sector's most pressing topics and up-to-date 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

State of the Sector 2024

It has been four years since the NPC published its last State of the Sector report. Since then charities have had to deal with several challenging events and occurrences, including the Covid-19 pandemic, the rise of inflation and increased interest rates.

Key findings reported by NPC's publication on the state of the sector included:

- Essential public services are at risk due to underfunded contracts held by charities with 62% of charities believing that they do not receive the full value it costs to deliver a public sector contract.
- There is a clear gap between the public's view of charities working where they are most needed and the view of charity leaders with 83% of leaders thinking that they work in the areas where help is needed most or all of the time.

- The environmental, social, and governance (ESG) agenda is not seen as a key opportunity by many charities, with only 31% discussing it at board level.
- Charities are more confident using digital technology but face large financial barriers to doing more.

In light of the report the CEO of NCVO, Sarah Vibert also reflected on the report stating that the pressure of the ongoing 'cost-of-giving crisis' means charity leaders are more focused on short-term survival. The report indicates that leaders are having fewer strategic conversations about mission, mergers and partnerships compared to three years ago.

The recommendations for charities to act on include:

- A review of the risks which government contracts may pose to the charities' sustainability.
- Not to overlook the longer-term risks that charities face in regards to the environmental crisis.
- Ensuring charity leaders make time for difficult conversations at board level thinking about their mission, delivery model or opportunities faced by merging at board level.

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

Guidance: https://bit.ly/3U4g5FN

Charity regulators write an open letter to UK Banks

In November 2023, the CEOs of charity regulatory authorities in England and Wales, Scotland, and Northern Ireland penned a collective letter. Their aim was to bring attention to the challenges faced by charities and articulate the repercussions for both the organisations themselves and the individuals or causes they support. They appealed to banks to streamline their services, allowing charities to operate without encountering severe governance hurdles.

The letter highlighted several challenges, including a decline in bespoke banking services, instances of administrative delays, and feedback indicating that online banking systems do not align with the operational needs of charities.

To tackle these pressing issues, the CEOs urgently urge banks to undertake specific actions:

- Streamline the process for establishing a charity bank account, recognising the mutual interest in safeguarding donated funds and aiding charities in prioritising the needs of their beneficiaries.
- Create thorough training resources for bank employees to deepen their comprehension of charity frameworks and governance systems, thereby mitigating delays stemming from misunderstandings.

In the letter the CEOs of the regulators state: 'There is little more that we as regulators can do. The action needed can only happen with support and leadership from UK banks.'

Guidance: https://bit.ly/3U1jlC6

Cyber security for Charities

In March 2024 the Northern Ireland Cyber Security Centre (NICSC) held a CyberNI week where a range of events were held to raise awareness of cyber security.

According to research from the NICSC, one in four charities have experienced a cyber attack in the last 12 months. That is why it is more important than ever to take steps to prevent cyber criminals from getting hold of your accounts, data, and devices.

The CCNI shared a presentation offering advice and tips on how charities can best protect themselves from cyber security issues and crime.

The top cyber security threats for charities listed by the CCNI include:

- **Ransomware:** Malicious software that makes data or systems unusable until the victim makes a payment.

- **Phishing:** Often untargeted, mass emails sent to many people asking for sensitive information (such as passwords) or leading to deployment of malware.
- **Supply chain:** Third-party services involving the granting of remote access or exchange of client / staff data without the setting of minimum security standards.

An emerging threat called 'Qhishing' is on the rise, where actors send phishing emails containing a pdf or png image of a QR code. The requirement to scan a QR code increases the likelihood of a recipient using a personal device outside of an organisation's web or antivirus protection.

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

The impact of Artificial intelligence (AI)

There are mixed views of AI in general but also in the Charity sector. AI could be seen as a major risk, but also a huge opportunity for charities to make efficiencies and deliver better services overall.

Adopting new technologies can be a difficult task especially if your charity is small, however the consensus of the speakers at the Charity Conference held by the ICAEW in January was that AI will eventually be as prevalent in our work as Excel has been.

The Charity Excellence Framework offers free training, guidance and template policies to help charities embrace and prepare for AI.

Included in the Charity Excellence Framework's resources is a Charity AI Toolkit which helps charities find out if they may be at risk.

Guidance: https://bit.ly/3xC1VV8

Charity fraud

Action Fraud reported that fraudsters diverted more than £2.7 million from charities last year.

Although most charity fundraising is genuine, with the increase in online activity fraudsters are using methods such as fake appeal websites, email appeals that falsely use the name of genuine charities to take advantage of public generosity.

Guidance: https://bit.ly/445dkZz

Fundraising levy review

In view of the Fundraising Regulator's strategic plan 2022-27 the regulator is committed to being a pro-active regulator. However, with this comes the need to have an increased capacity to learn from charity fundraising experience and share its learning.

The Fundraising Regulator is proposing an increase to the levy, this increase marks the first increase since 2016 (when the regulator was created). The reasoning behind the increase in levy is largely driven by the significant rise in digital fundraising and with that comes the increased caseload for the regulator to deal with.

Guidance: https://bit.ly/3U1jndc

The fundraising regulator's inquiry into the use of subcontracting

Last summer, the fundraising regulator launched its first market inquiry into the use of subcontracting in face-to-face fundraising. The inquiry was launched as a result of a pattern of complaints, self-reports and press interest into poor door-to-door fundraising practice by subcontracted agencies.

The regulator held five fact-finding workshops with senior representatives from charity fundraising teams, charity compliance teams and agencies. There were 78 participants across the workshops from 36 charities and 18 agencies. Workshop participants shared many examples of good practice and a widespread willingness to do the right thing.

In March, the Fundraising Regulator released the results of its market inquiry. Among the regulator's recommendations to charities is closer monitoring of subcontracting firms and ensuring they receive adequate training. Furthermore, both charities and agencies must ensure that the payment model for fundraisers is suitable and does not encourage unethical practices.

The results inquiry emphasises the need for robust oversight of subcontracted relationships in fundraising. Both charities and agencies must ensure fundraising activities comply with contracts and fundraising standards. Charities bear ultimate responsibility for all fundraising conducted in their name, including third-party involvement.

The inquiry concludes that although face-to-face fundraising is valuable for charities, charities and agencies must review processes to address risks of poor practice.

Guidance: https://bit.ly/3Q5KvGM

Charity law reform - England & Wales

In previous editions we have reported on the reforms set out in the Charities Act 2022 that have come into effect. Similar to the previous changes, the most recent changes that came into force on 7 March 2024 are designed to make things easier for charities.

Making changes to governing documents

The implementation of a new statutory power for trusts and unincorporated associations to amend their governing documents. This requires approval from the Charity Commission for specified changes, aligning with procedures for charitable companies and Charitable Incorporated Organisations (CIOs).

Further changes include adjustments to resolution processes, consistency in legal tests, and provisions for public notification of alterations.

Additionally, statutory powers for small unincorporated charities to modify their documents have been repealed.

Selling, leasing or otherwise disposing of charity land

Provisions relating to disposals of land, taking out mortgages were due to come into force on 14 June 2023 however were delayed until now.

Charity mergers

New rules allowing for most gifts to charities that merge to take effect as gifts to the charity they have merged with.

Other provisions

Where the Commission decides it would be inequitable for a trustee not to be paid, the Act now enables the Commission to authorise a trustee to receive or retain payments for work completed for the charity. Additionally, the Act now enables the Commission to confirm defective or potentially defective trustee appointments.

Guidance: https://bit.ly/3Q28xCA.

New charities' Annual Return

In October 2023 the Charity Commission launched the new Annual Return for 2023 (AR23).

The updated return can be accessed by charities through the My Charity Commission Account service. It presents a modified series of inquiries that charities will utilise for their financial years concluding in 2023 and in subsequent years.

The Annual Return serves as the online form that charities generating yearly incomes of £10,000 or more must complete within 10 months after the conclusion of their financial reporting period. Additionally, all registered charitable incorporated organisations (CIOs) are obligated to submit this online form.

The revised set of questions aims to assist the regulator in improving its assessment of risks within the sector and in enhancing the transparency of charities.

The updated form aims to provide greater simplicity for charities. The Charity Commission has streamlined the language of the questions and adjusted the information required in the AR23 form based on the size and complexity of each organisation. Larger charities, especially those with staff or international operations, will need to address a broader range of questions compared to smaller, simpler charities.

Guidance: https://bit.ly/3QaKq4v

Developments to the process of completing the annual return online

In our last edition we informed you that the OSCR proposed several changes to the Annual Return required from Scottish Charities, with a consultation period on the changes which ran to 6 October 2023.

Following on from the consultation, the OSCR has recently made some improvements to the online annual return process. There are three main updates:

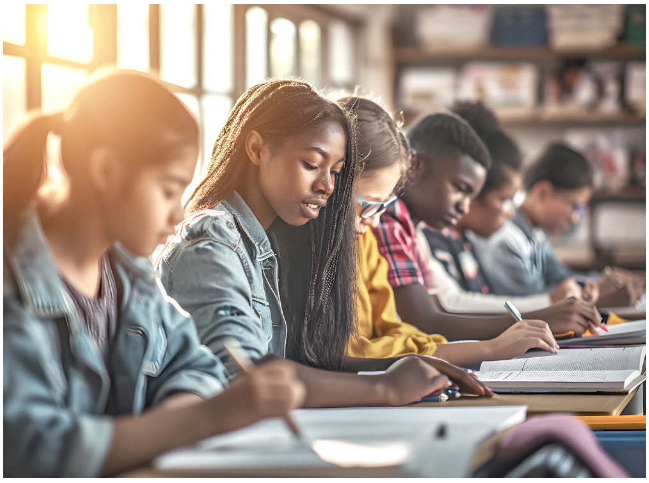
- Updated information boxes will offer support and guidance as you complete your online annual return.
- The OSCR has included additional questions to gather more relevant information about charities in Scotland. Going forward, the aim is to publish more of this information on the Scottish Charity Register.
- An email containing feedback from your online annual return will be dispatched to the primary contact, providing tailored guidance for your charity.

Guidance: https://bit.ly/3U2rUfN

The Charity Commission investigates four education charities

The regulator has opened a statutory class inquiry into linked charities after finding irregularities in their accounts, leading to concerns of potential misuse of funds.

The charities that are subject of inquiry are: Education for Gondar, Education in Sidama, Education for Nyanza and Education in Western Province, Kenya.



Similarities found by the regulator's registrations team led the Commission to first open compliance cases into each organisation as part of its proactive engagement.

The regulator inspected each charity's annual return submissions and bank accounts, finding that two of the charities had accounts which followed a trend of receiving funds that were then immediately transferred to a private bank account.

The inquiry will assess the degree to which trustees of charities adhere to their legal obligations concerning the administration, governance, and management of their charity.

As per standard practice, the Commission typically publishes a report following the conclusion of an inquiry. This report outlines the examined issues, any implemented actions, and the outcomes of the inquiry.

Guidance: https://bit.ly/4406Efj

How the cost-of-living crisis has impacted charities

In December The Charities Aid Foundation surveyed over 600 charities as part of their Charity Resilience Index. The index aims to track how charities are experiencing and responding to the cost-of-living crisis in the UK. Key findings from the survey include:

- Half of charities are operating at maximum capacity and many are being forced to make difficult decisions on who they can help, with 15% of respondents saying they have been forced to turn people away.
- With more people in extreme need many charities are seeing an increase in demand for their services however, resources are tightening.
- Charities are unsure whether they can maintain the staffing levels needed to address increasing demand, and the current working conditions are impacting staff morale at certain charities.

Guidance: https://bit.ly/3Q6bVw0

Charity Commission Strategy 2024-2029

In February the Charity Commission unveiled a forward looking strategy which is designed to send a strong signal of its continuing ambition to be an expert regulator in the sector.

The strategy highlights five key priorities that have been developed by what has come before and what is understood to be forthcoming. The five priorities are as such:

1. We will be fair and proportionate in our work and clear about our role.
2. We will support charities to get it right but take robust action where we see wrongdoing and harm.
3. We will speak with authority and credibility, free from the influence of others.
4. We will embrace technological innovation and strengthen how we use our data.
5. We will be the expert Commission - where our people are empowered and enabled to deliver excellence in regulation.

To measure its progress against the strategy, the Charity Commission will begin the process of identifying a set of strategic impact measures in early 2024. By mid-2024, the plan is to unveil these new measures, aligning them with the five strategic priorities listed above. The first reporting against these measures will be featured in the Annual Report for 2024-25, scheduled for publication in July 2025.

Guidance: https://bit.ly/3Jq3Ajb

Accounting and tax update

Charities SORP FRS 102 – project update

On 27 March the Financial Reporting Council (FRC) published the long-awaited updated version of FRS102, the financial reporting standard that forms the basis of the rules which many charities are required to follow when preparing their annual accounts.

Not all of the changes made in the revised standard, which will come into force for accounting periods beginning on or after 1 January 2026, will impact heavily on charity reporting but there will be some significant changes. Perhaps the change with the greatest impact for charities will be the way operating leases are accounted for by lessees. Unless they are short-term leases of less than a year in duration or of low value all leases will now need to be recognised on-balance sheet, with the lease commitment recognised as debt and a corresponding right of use asset. This could significantly impact the way in which a charity presents its financial position.

The changes introduced by the latest version of FRS102 will need to be reflected in an updated version of the Charities SORP. Drafting of the new SORP is well under way and a draft can be expected to be published for consultation soon.

Guidance: https://bit.ly/3Q7k6rQ

Company size limits

The government has announced plans to increase company size limits this summer by around 50%. Whilst this will have little impact on reporting requirements for most charities the increase in the limits could see the reporting burden reduced for some charitable companies that are no longer classified as being either a medium or large sized company. This could include, for example, less charities having to provide details of carbon emissions and energy usage as part of their trustees' report, although many may decide to continue to publish this information on a voluntary basis.

Sadly though no announcement has been made of any changes to the charity size limits which would have far greater impact for the sector. Charity reporting requirements, including the need to have accounts audited, are based on different, lower limits which have remained unchanged for some time now and differ across the nations of the UK. A similar increase in those charity size limits and greater uniformity would have a far greater positive impact for the charity sector.

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

Spring Budget 2024

It was clear that the Spring Budget was a budget focused on business investment initiatives with some measures to support members of the public. Although the budget may have been welcomed by many, there was however not much support directly offered to charities.

Although the budget may not have directly mentioned charities, there were some measures which will impact charities and their beneficiaries:

- Employee National Insurance - The government will cut the main rate of National Insurance contributions for employees from 10% to 8%. The main rate of National Insurance for the self-employed will reduce from 8% to 6% on Class 4 National Insurance contributions.
- VAT threshold: The VAT registration threshold for small businesses will increase to £90,000 (previously being £85,000), keeping many smaller charities from having to register for VAT.

There was concern that the new Digital Markets, Competition and Consumers Bill (which brings in protections for customers taking out digital subscriptions) would prevent charities from claiming gift aid on recurring charity memberships. However, amendments have been tabled to the Digital Markets, Competition and Consumers Bill allowing charities to continue to claim Gift Aid on subscription contracts, which could otherwise have been affected by the provisions in the Bill.

Theatres, orchestras, museums and galleries will be given permanent higher rates of tax relief from 1 April 2025. These will be 40% for theatres, museums, and galleries, and 45% for all orchestra productions and other touring productions.

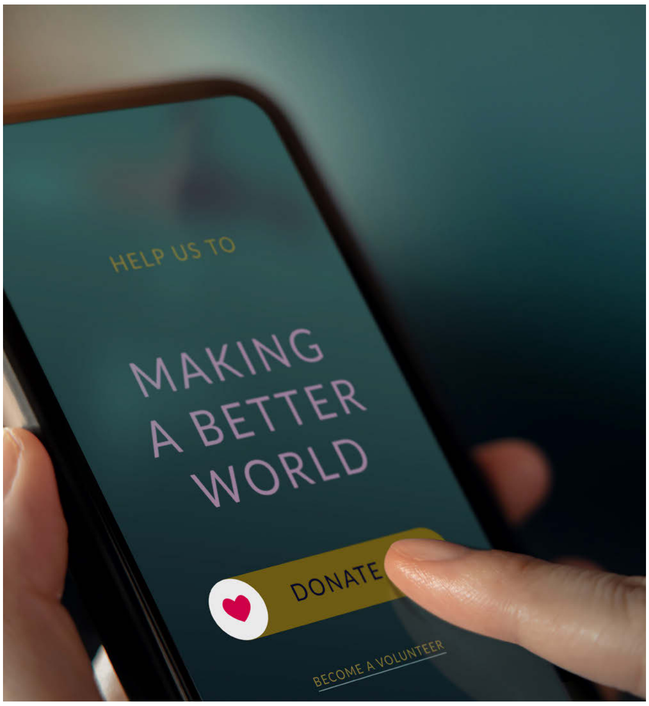
£45 million will be provided to medical charities through the Medical Research Charities Early Career Researchers Support Fund into medical research into diseases such as dementia, cancer and epilepsy, including £3 million for Cancer Research UK (CRUK).

£5 million will be added to the Platinum Jubilee Village Halls Fund for local village halls across England.

Guidance: https://bit.ly/3U12pvm

The PayPal Giving Fund (PPGF)

As a result of Meta's partnership with PayPal from November 2023, when a donation is made to a charity on Facebook or Instagram, the donation is legally made to PPGF. Considering PPGF is a registered charity, Gift Aid claims are made by PPGF in its own right, the gross donation is then passed on to recipient charities as a grant.



In effect this means the compliance risk of due diligence tests of Gift Aid has now transferred from the recipient charity to PPGF.

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