

In this issue we look at:

- COVID-19 further support measures
- COVID-19 related financial difficulties
- Managing spending during COVID-19
- Gift Aid temporary relaxations
- Keeping calm and carrying on through a global pandemic

Editor's welcome

For the last few weeks we have been busy signing off December year end audits. Most audit reports have 'material uncertainties relating to going concern' paragraphs in them which is indicative of the state of many in the sector. Those charities that were already teetering on the edge are fighting for survival. It is difficult to forecast income and expenditure at the moment but it is vital to do so and scenario plan for a range of possibilities. Cash flow forecasting is essential.

There are undoubtedly opportunities for charities to work in a better way and think innovatively. Additionally, we are seeing

grant providers being far more flexible, some lifting restrictions on funds and a recognition that more funding is needed for core costs.

There are examples of charities working in partnership together to deliver much needed services to those that are most vulnerable.

We do still need the government to recognise that the sector needs a specific funding package as the £750m announced so far is drop in the ocean.



Jane Marshall
jane.marshall@bhp.co.uk

COVID-19 further support measures

Throughout April we provided details of the various Government support packages available to charities. Rachelle Rowbottom provides an update of further support and announcements that have been made since then.

Bounce Back Loan Scheme (BBLs)

The BBLs was established to enable smaller businesses to access finance of between £2k to £50k more quickly. The loans are available for up to a 6 year term, are 100% guaranteed by the Government with no fees, interest or repayments due for the first 12 months.

Businesses, including charities (not public-sector bodies or state-funded primary and secondary schools), can apply if they are based in the UK, were established before 1 March 2020 and have been adversely impacted by the coronavirus. Any charities that have claimed under the Coronavirus Business Interruption Loan Scheme are not eligible.

If your business was classed as a "business in difficulty" on 31 December 2019 you'll need to confirm that you're complying with additional state aid restrictions.

There are 11 lenders participating in the scheme including many of the main retail banks. Applicants will be asked to complete a short online application form and declaration of eligibility.



For further information please contact Rachelle Rowbottom
rachelles.rowbottom@bhp.co.uk

Local Authority Discretionary Grants Fund

The previously announced Small Business Grant Fund was only open to organisations claiming Small Business Rates Relief. This meant that charities claiming mandatory charity rates relief were unable to claim, even though many have been equally affected by COVID-19 and have suffered a loss of income.

It was therefore pleasing to hear the Government announcement on 2 May of an additional £617 million of grant funding. This additional fund will be distributed by Local Authorities and is aimed at small businesses with ongoing fixed property costs.

The Government is asking Local Authorities to prioritise certain types of business, including charities with properties benefiting from charitable business rates relief which would otherwise have been eligible for Small Business Rates Relief. Generally speaking, from a charity perspective this means that the fund is aimed at charities occupying a primary property with a rateable value of less than £15,000.

Charities hoping to benefit from this fund should contact their Local Authority to explain why they need it. It is expected that online application forms will be

available to start the process shortly.

Coronavirus Job Retention Scheme (CJRS) extension

On Tuesday 12 May, the Chancellor announced the extension of the CJRS until the end of October, with flexibility being introduced into the scheme from August.

The aim of the more flexible approach is to help employees get back to work and this will be allowed on a part-time basis for staff that have been furloughed. It is currently expected that employers will be required to pay a percentage of salaries during this period to substitute the government contribution, ensuring that staff continue to receive 80% of their salary, up to £2,500 a month. Further information on how this will be implemented is expected by the end of May.

Survey on charity usage of Government COVID-19 support measures

To help inform its future lobbying plans, CTG is asking charities to complete a short survey (10 questions and takes on average 5 minutes to complete) on the extent to which they have made use of Government COVID-19 support measures. Please click [here](#) to provide your feedback.

COVID-19 related financial difficulties

The Charity Commission has published guidance about coronavirus (COVID-19) related financial difficulties in charities and how to work through them. Jane Marshall takes a look at the practical implications for charities.

Consider the best interest

The starting point is always what is in the charity's best interests. The factors you will need to take into account to judge this include, the trade-off between reducing costs in order to be there to support beneficiaries in future, and meeting the immediate needs of beneficiaries which could mean that in future the charity will have to reduce its services or in a worse-case scenario, close entirely.

None of us know how long this crisis is going to last for, so, in order to inform the decision-making process a number of financial scenarios will need to be considered.

Some options to generate cash;

- If you decide to sell investments or other assets at this time, you may raise significantly less money from their sale. This may be the best option available for meeting urgent needs or helping the charity to survive - but you should have clear reasons to support the decision.
- Borrowing against assets may be an alternative choice provided that the repayment of the loan can be funded.

You must ensure any actions are in line with your charity's purposes and governing document. If they involve lifting restrictions on assets or disposals of land, you should check if the permission of the Charity Commission is needed.

Trustees will generally be protected when they have carefully applied their skills and experience to decisions and taken professional advice when needed. The Charity Commission recognise that these decisions will often be difficult, that there may not be an obvious 'right' decision, and that charities will be exposed to higher levels of risk than in more normal times.

They also recognise that things may go wrong despite the best efforts of trustees to act in their charity's best interests. Trustees can be held personally liable for any financial losses if they have acted

dishonestly, negligently or recklessly. It is therefore imperative that up to date financial information is available, regular meetings are held and all decisions are properly documented. For more information see [section 10 of The essential trustee guidance](#).

In reaching your decisions, open and informative communication with users, supporters, staff volunteers and advisers will be important.

Working through the following suggested steps will help you understand your charity's financial position, create a plan and make decisions.

Step 1: Consider your current financial situation

A focus on cash flow management is vitally important. You need to have a clear picture of:

- the current and future operations and their financial implications;
- all the payments the charity will have to make over a range of different timescales (for example, the next few weeks / month / three months / six months);
- what income the charity realistically expects to receive over the same timescales based on a best estimate.

This basic form of cashflow forecast should enable you to identify whether the charity is at risk of running out of the cash it needs and when that shortfall will happen.

Step 2: Options for minimising costs and protecting and increasing income

Minimising costs and maximising income will, obviously, help improve your charity's cash flow position.

Minimise costs

If your charity can continue to operate, consider if it is possible to:

- identify and stop or put on hold non-essential outgoings;

- find alternative, cheaper ways of operating by using technology or other efficiencies;
- team up with other charities with similar aims to aid cost savings;
- re-allocate staff to the priority tasks relevant to surviving the financial challenges.

Alternatively, is it feasible to reduce the charity's services or put it into 'hibernation' for a fixed period in order to reduce the charity's costs? For example:

- cancelling contracts where costs currently outweigh benefits. Check if there are any penalty charges and whether there is any option of waiving these;
- using the [government's job retention scheme](#) to furlough staff who will not be needed to deliver services.

Other options for reducing costs include:

- applying for any other government schemes that will help you reduce, spread or delay payments such as business rates or VAT. See the [government's coronavirus business support guidance](#).
- reducing immediate borrowing costs by rescheduling loan repayments over a longer timescale

Protect and increase income

Options include:

- talking to your funders at an early stage. Many funders are being more flexible in the current situation, for example they may be able to relax restrictions or conditions they may have placed on how payments or grants are to be used. They may also agree to bring forward payments.
- consider raising funds from an emergency appeal or in new way
- look at new grant funds that may be available
- review your designated funds (money that is earmarked for a purpose but not formally restricted) to see if you can release these for general use
- access your reserves ie funds which



can be freely used for any of your charity's purposes. If you do decide to use reserves it may mean that you will have to cancel or defer projects or other commitments which they might otherwise have funded. If your free reserves are held in investments, you will have to judge whether drawing them down is in the charity's best interests given the likely loss in value.

- consider accessing your [charity's permanent endowment assets](#), if you have any, although you may need Charity Commission agreement to do this.

Step 3: Keep the charity's operations and finances under regular review and take any additional actions

Throughout the pandemic - and beyond - robust, frequent monitoring and review of your finances is essential to assist your strategic planning. Up to date management accounts and a rolling cash flow forecast which are monitored against budgets will identify any pinch points and help you manage the situation.

Reviewing your finances in this way will help you to plan:

- when you will be able to move the charity to recovery and a more normal operating environment; or
- whether you need to consider closing the charity.

What to do if your charity cannot continue to operate because of the financial problems caused by COVID-19

If you decide that closure is necessary, prepare for an orderly closure and focus on the following key areas to protect the charity's best interests:

- check the charity's governing document for any requirements and restrictions covering closure eg the process and how any remaining assets are to be used. Any permanent endowment assets that have to be preserved may need transferring to another charity;
- decide on the type of closure. In addition to complete closure and cessation of the charity's activities, it may be possible to [merge with or transfer to another charity](#) - financial crisis does not prevent this;
- build a picture of the costs of closure: they could include unavoidable contract and leasing costs, redundancy payments, costs of transferring assets, or services or parts of a service to other providers. Gather this information, if possible while the charity is a going concern, so that you can use it to help you identify the point at which you must decide to cease operations and close the charity;
- the [government has outlined some proposed relaxations to insolvency law for companies](#) and directors of charitable companies should take

advice on how this may affect a decision to close.

- let users and beneficiaries know in good time and, if possible, point to support that will help them adapt to the loss of the charity's services. Communicate the decision to funders, volunteers, staff, supporters, creditors and other stakeholders.
- take professional or expert advice if you decide to close, particularly if your charity is a company or CIO because there are legal requirements to meet. Charity Commission guidance [Managing a charity's finances: planning, managing difficulties and insolvency](#) provides some general advice about the processes to follow, depending on the charity's structure.
- appoint administrators who will take over and ensure that all the appropriate legal mechanisms are followed.

Serious incident reporting

You should report a 'serious incident' to the Charity Commission if:

- the scale of financial loss threatens the charity's ability to operate and serve its beneficiaries;
- the charity's financial reserves or other measures are not sufficient to cover the losses;
- your charity goes into insolvency or faces closure because of financial difficulties.



For further information please contact Jane Marshall jane.marshall@bhp.co.uk

Managing spending during COVID-19

Alyson Kimber looks at how charities need to manage spending during the coronavirus (COVID-19) pandemic.



The Coronavirus (COVID-19) pandemic is forcing many charities to change how they usually operate. UK charity regulators have urged independent examiners and auditors to be vigilant, issuing guidance for independent examiners on potential risk areas which includes incorrect spending. Trustees and management are having to cope with serious financial challenges that will have a major effect on their charities and those who depend on them; however, it is imperative that consideration is taken before funds are spent.

The Charity Commission are aware that charities may feel obliged to help with the COVID-19 effort and those affected by COVID-19. It is important to remember however that many charities will not be able to do so within their current charitable purposes or objectives and charities must ensure they continue to spend in line with these objectives, the funds they hold in reserves both restricted and unrestricted were accumulated to meet these objectives. Restricted funds should only be spent differently where donors have agreed to a variation to the purpose for which they were originally given.

If you are unsure if your charity is able to offer assistance the Charity Commission has issued detailed guidance [here](#), which outlines objects which may allow you to offer support. These include the relief of poverty and the relief of need hardship or distress. It has also outlined ways those charities whose objectives aren't directly covered may also offer assistance indirectly, such as through pastoral care or the relief of isolation. It does however warn that in considering what you can do under your existing objects you will need to check whether your objects have restrictions, for example, to benefit a particular local area or class of beneficiaries. The guidance issued to independent

examiners states that "when examining accounts which relate to the COVID-19 period examiners must pay particular attention to the charity's activities and consider how they relate to the charity's purposes" as such this is an area you are likely to be challenged on, especially if spending on new COVID-19 related activities.

As well as ensuring the charity continues to spend in line with its charitable objectives consideration also needs to be given to meeting its day to day running costs, this is especially important if the charity is reliant on income which has reduced or ceased during the pandemic.

If the charity is facing financial difficulties it may be tempted to dip into restricted funds. The guidance issued by the Charity Commission states that

"in times of financial need charities may find it difficult to meet expenditure from their unrestricted funding streams. Whilst we understand that charities are under pressure to meet their financial obligations, restricted funds should not be used to meet general expenditure. Examiners should take care to ensure that charities are not incorrectly spending restricted funding" The charity can use available unrestricted reserves to help cope with unexpected

events like those unfolding at present. However, the utilisation of free reserves now has to be balanced with there being sufficient funds to continue when we come out of this crisis.

If your charity is struggling it may be worth reviewing restricted funds to ensure that they have been correctly classified. You need to be sure that the funds are definitely restricted and not designated as the two are quite different. Restricted funds arise where a third party has placed a restriction on the use of the fund whereas designated funds are where the charity trustees have chosen to set aside some of the unrestricted funds of the charity for a specific use. Designated funds can be released by the trustees if needed.



For further information please contact Alyson Kimber alyson.kimber@bhp.co.uk

If charity trustees are in doubt, they should check the paperwork that they have to support the restriction. Accessing or releasing restricted funds should only be considered if other options are not possible. The charity should carefully consider the wider and longer term impacts of making such a decision on financial resilience and donor relationships.

In these unprecedented times it is important that charity trustees and management ensure that they remain compliant with the guidance issued by the Charity Commission and seek help and advice when in doubt.

Gift Aid and Gift Aid Small Donation Scheme (GASDS) temporary relaxations

In light of current circumstances, HMRC have provided guidance on how charities can benefit from Gift Aid on cancelled events and also continue to make claims for small donations under the GASDS. Rachelle Rowbottom gives an overview.

Gift Aid and cancelled events

Charities can claim Gift Aid where supporters choose to donate money to charity instead of receiving a refund from an event which has been cancelled due to coronavirus. The charity will need to ensure that it obtains a valid Gift Aid Declaration from the donor but it will not need to physically return the money and receive it back again.

HMRC have confirmed that this temporary relaxation also applies to registration fees for challenge events which have been cancelled due to coronavirus and are therefore refundable.

Charities will need to retain copies of communications with donors, specifying the amount that is being refunded/donated and the donor's agreement to making the donation.

Gift Aid Small Donations Scheme (GASDS)

The GASDS provides top up payments for small cash donations of £30 or less. From 6 April 2019, this also included contactless donations. Both of these methods of

donation are being severely impacted due to the coronavirus pandemic and therefore there has been concern from the sector regarding how the GASDS can be utilised.

The Charity Tax Group (CTG) [urged HMRC](#) to introduce some temporary flexibility to the scheme by accepting multiple cash donations of £30 or under that have been saved up by regular donors during the crisis. The cap on eligible donations would not be affected and would remain at £8,000, so there would be no additional cost to the Exchequer.

Clarification has been provided by HMRC as follows:

"In respect of GASDS, guidance on the eligibility for donations for inclusion in this scheme is clear in stating that claims can only be made on cash donations of £30 or less; and contactless card donations of £30 or less collected on or after 6 April 2019. The decision over what constitutes an eligible donation is one for the church/charity to make for themselves, rather than for HMRC, but the conditions for something to be



considered a 'small donation' are clearly set out in legislation. Where it is the case, for example, of separate donations being given in a single envelope, then if the church/charity official is happy these are clearly separate 'small donations' (and clearly stated as such) then they will be eligible for GASDS, as is the case where separate envelopes are used".

This is welcome news!



For further information please contact Rachelle Rowbottom rachelle.rowbottom@bhp.co.uk

If your charity is struggling it may be worth reviewing restricted funds to ensure that they have been correctly classified.

Keeping calm and carrying on through a global pandemic



Since the government announced lockdown in the UK on 23 March here at BHP we have quickly got used to this new way of life. Whilst I don't think any of us expected this to be our new normal back at the start of 2020, we have been able to quickly adapt.

From the beginning of March, our IT Team spent an intense few weeks building remote desktops and making sure we would all be well equipped to work from home. This, along with our investment in specific technologies over the last 18 months has meant we have been able to continue to provide our clients with the high level of service they expect from us, despite the circumstances.

Our partnership with Inflo Software has meant we have been able to carry on our normal audit processes whilst working remotely. The clever client collaboration portal has allowed us to gather audit information and track audit progress. The transparency for both us and the client team has meant that we have been able to keep calm and carry on.

A year end audit can be a stressful experience for a lot of entities and their finance teams without being forced to work remotely, however, we were

determined this wouldn't be the case for our clients. Shaker Khaliq, Deputy Director of Business at Derby Diocesan Board and of Education recently said that "the audit staff have been absolutely brilliant in the way they have dealt with audit queries, the process has been clear and efficient".

Client collaboration has been key, but our ability to use Inflo to ingest the accounting system data, mine 100% of transactions throughout the year, and run a suite of analytical tests over the data has meant despite working remotely we can provide a high quality audit to our clients. Not only this but being able to run the analytics and provide our clients with management insights over their finance function has proved invaluable during this time.

Working remotely is a completely new concept for many of our client so here are our top 5 tips for a successful audit:

1. Communication is key – an open line of communication is even more vital whilst working remotely
2. Clear timescales – setting out clear plans and realistic deadlines at the beginning of a project (whether that be an audit or not) is key for

managing expectations on both sides

3. Project management – an audit can often be like a mini project and having transparency of progress is important for both parties
4. Compassion – we're living in strange times and this is a very new normal we are all trying to get used to, a little bit of patience and understanding goes a long way
5. Try and have some fun with it – a happy team is a more productive team. We've been opening up Zoom coffee rooms over lunchtime so colleagues can get together for a coffee and have some interaction, running Friday evening virtual quizzes and making sure our teams are connected through the use of Microsoft Teams.

It's a trying time for all of us at the moment, if you feel you could benefit from any of our assistance during this time or would like to discuss how we are working remotely, please feel free to get in touch.



For further information please contact Ellie Dignam ellie.dignam@bhp.co.uk