Charity Newsletter

March 2024

Jane Marshall - Editor
Partner and Head of Charities and Not for Profit
jane.marshall@bhp.co.uk

Welcome to the March issue of our Charity Newsletter...

After living and breathing the charity sector for over 30 years, it's a joy to pause and celebrate the incredible transformations I've witnessed along this remarkable journey.

My interest in the sector was really sparked with the release of the second Statement of Recommended Practice (SORP) for charities in 1995. The complex accounting regime that was brought about at that time made us realise that assigning one or two charity audits to every manager wasn't feasible and so I embarked on what was to become a career specialising in the charity sector. At that time there would have been no more than six of us dedicated to charities at BHP.

What's particularly exciting about working in this realm is the diverse array of clients I have encountered: hospices, theatres, students' unions, dioceses, cathedrals, even a historical railway. Yet, it's not just the variety of clients that has captivated me, but also the individuals within them. The motivations driving those involved in the not-for-profit sector differ significantly from those in the for-profit field.

Having said that, charities these days must be run as businesses to ensure they continue to develop and survive. Building robust reserves through generating surpluses has become imperative, especially amid the ongoing cost of living crisis, where funding is dwindling in real terms while demands are escalating.

In early 2005, recognising the absence of top-tier charity conferences outside of London, we took the initiative to establish BHP's highly successful annual Charity Conference. Over the past 18 years, we've hosted 15 conferences, featuring esteemed speakers from within the sector. The 2023 event drew over 100 delegates from charities across the region, eager to stay updated on the latest developments, but beyond the insightful sessions, it served as an invaluable networking opportunity for representatives from the region's charities.

Additionally, I had the privilege of serving on the ICAEW Charity Committee for a decade, eventually holding the position of Joint Vice Chair. This provided a unique platform to collaborate with leaders from major national charity audit firms while ensuring that perspectives from small and medium-sized charities were consistently represented.

Today, the charity team at BHP is 65-strong.

I leave this truly talented team, of whom I am so proud, in the very capable hands of Laura Masheder who takes over as Head of Charities on 1 April 2024. Laura is an accomplished Partner and has specialised in the charity and not-for-profit sector for over a decade. She will be supported by three partners: Lesley Kendrew, Dominic Staniforth and Philip Allsop, together with our Director RIs: Rachel Heath, Nicola Adams and Neil Baldwin.

I hope you and your charity have a successful year ahead, despite the challenges that the sector faces. Please know that the BHP team is here to support you every step of the way.

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Spring Budget 2024 — what it means for the charity sector

Katherine Robinson
Manager
katherine.robinson@bhp.co.uk

Katherine Robinson reflects on the Chancellor's statement and how his measures will affect the not-for-profit

This month's Budget was an interesting one, delivered by the Chancellor with some exciting announcements for other sectors. However, the word 'charity' was not even mentioned once.

It felt like the Budget's main focus was to win over taxpayers and votes before the impending General Election. This was reinforced by the fact the Chancellor did not address the findings from the recent charity tax compliance consultation, which closed in Summer 2023, putting changes in the current tax system on the back burner.

Although not naming the sector specifically, the Chancellor did announce measures to help those groups that charitable organisations support. He announced that:

- **The most vulnerable in society would be supported with an additional £500 million through the extension of the Household Support Fund — helping with the cost of essentials.**
- **£26.4 million to upgrade the National Theatre's stages and infrastructure.**
- **An additional £5 million of funding to continue to support village halls.**
- **£100 million of funding for cultural projects.**
- **£6 million of funding for community-led regeneration projects.**

A summary of the main announcements impacting the sector can be found below:

Employee remuneration

The biggest headline that excited the media was the announcement regarding National Insurance contributions.

Since January 2024, Class 1 Employee National Insurance is charged at 10% on earnings between the primary threshold and upper earnings limit.

However, it was announced that this will be cut again to 8% from 6 April 2024, leaving payroll software providers little time to update their software and ensure these updates are reached to their end users in time to process payroll.

Payroll staff in charities and their trading subsidiaries will need to keep this in mind to ensure their software is ready for the change.

VAT

Very little was mentioned in terms of VAT. However, the Chancellor did announce that, from 1 April 2024, an increase in the VAT registration threshold for taxable turnover from £85,000 to £90,000. Also, from that date, businesses may apply to deregister when taxable turnover falls below £88,000.

Cultural tax reliefs

In comparison to the subtle changes and clarifications made to cultural tax reliefs, the Chancellor announced that the increased tax credits for Museum Galleries and Exhibition Tax Relief (MGETR), Theatre Tax Relief (TTR) and Orchestra Tax Relief (OTR) will now be permanent. These reliefs had been due to drop back to their lower rates from 1 April 2025.

The tax credits will now be:

- **45% for touring productions and all orchestra productions; and**
- **40% for non-touring productions.**

The final announcement was that MGETR, which was due to end on 31 March 2026, will also be permanent through the removal of the sunset clause.

These are very welcome changes and provide recognition for the sector's invaluable work in educating and enlightening the minds of the public and continuing investment in tourism.

Open letter to high-street banks

Neil Baldwin
Director
neil.baldwin@bhp.co.uk

Neil Baldwin details the Charity Commission's open letter to UK banks about "substandard" services to charities.

Back in November 2023, the Chief Executives of the Charity Commission, Charity Commission for Northern Ireland and the Office of the Scottish Charity Regulator urged the UK's main high-street banks to improve their "substandard" services for charities via an open letter. The letter represents a pivotal move in the ongoing commitment to transparency and robust financial governance.

The letter highlighted that many charities are:

- Having accounts closed or suspended suddenly for long periods of time.
- Facing a reduction in bespoke banking services.
- Experiencing poor customer service and administrative delays.
- Finding that online banking is not designed to match the way charities operate.

While the letter acknowledged there had been progress made in certain areas, it is believed that banks still needed to do far more.

It is felt that areas of particular focus should be:

- The process for setting up charity bank accounts to be made more straightforward, and better support could be given to prioritising meeting the needs of their beneficiaries.
- Training materials for bank staff to help them understand the different structures of charities and to help avoid unnecessary delays driven by misunderstandings.

Recently released figures show 42% of trustees have reported experiencing bad service in the past year, with 6% reporting account freezes or being blocked to their account and 7% stating that their bank had lost their records. The Charity Commission chief executive, Helen Stephenson, stated that the figures released indicate the 'extent and impact of the appalling service charities receive from some banks'. Stephenson also expressed her disappointment at the limited response so far from the high street banks.

As the Chief Executives of the UK banks consider and respond to this open call for improvement to the services provided, the charity sector anticipates a more understanding and simplified financial landscape. This development reinforces the crucial fact that the sector not only requires banks to offer accounts, it requires accounts that actively support charities and the valuable work that they undertake, especially in the current financial climate.

Charity Comission Chief Executive

Trading subsidiaries: the benefits

Nicola Adams
Director
nicola.adams@bhp.co.uk

Nicola Adams considers the benefits of setting up trading subsidiaries.

A trading subsidiary may be set up by a charity to carry out certain trading activities that might otherwise be carried out by the charity.

The benefits of setting up a trading subsidiary are discussed below.

Limited liability

Commercial activity is ring-fenced in a separate limited liability company to protect the parent charity from risk of losses relating to the activities carried out by the subsidiary.

Corporation Tax reduction

Where the charity breaches the exemption limits for non-primary purpose trading and is subject to a tax liability, this liability may be reduced to nil by carrying out trading activity in a subsidiary company that is able to Gift Aid its taxable profits to the parent charity.

VAT

Thresholds may not be breached if some commercial activities are carried out in a subsidiary. There may also be other VAT benefits depending on the individual characteristics of the charity and the trading subsidiary, for example on zero-rated building contracts.

Commercial partnerships

More flexible partnerships or collaborations may be possible, which can achieve the required outcomes of each partner. The risk is also not borne by the charity and the activities may not be taxable.

Encourages commercial thinking

In an economic environment where grant income and donations are declining, a trading subsidiary may encourage more commercial thinking and can generate additional sustainable income to support the activities of the charity.

Encourages commerciality and transparency

If separate teams are involved in separate activities, segregation of these may lead to better accountability and stronger focus for each team. This can be achieved through reporting two separate accounting results. There may also be greater transparency to external stakeholders.

When making a decision on whether a trading subsidiary should be set up, consideration should be given to the type of charity, its charitable objects, the proposed activity and the expected level of income. As with any other business, there needs to be a properly thought-out business plan.

Charities should also be aware of the key governance issues when considering a trading subsidiary, such as how it will be financed, the relationship with the charity, the decision-making process in each entity, and how they both interact.

FRC periodic review and SORP update

Rachel Heath
Director
rachel.heath@bhp.co.uk

Rachel Heath provides an update on the FRC periodic review and SORP.

The draft amendments to UK GAAP standards are set out in FRED 82, which proposes several changes resulting from the second periodic review of FRS 102 and other Financial Reporting Standards. FRED 82 proposes key amendments to revenue recognition and leases reflecting the principles of International Financial Reporting Standards (IFRS).

IFRS 15 — Revenue from Contracts with Customers introduces the five-step model to recognising revenue, and IFRS 16 requires the recognition of all leases on the balance sheet. FRED 82 also incorporates changes to bring consistency in accounting principles by all entities through changes to the conceptual framework, providing more comprehensive guidance on fair value, based on the international definition and amendments to small entity disclosures (not available to charities).

On 29 September 2023, the Financial Reporting Council (FRC) published a project update announcing a delay, and currently expects to issue the final amendments to FRS 102 and other FRSs in the first half of 2024, with an effective date not before 1 January 2026. **Read more here.**

The FRC has undertaken significant engagement with stakeholders and is currently taking into account the helpful responses and feedback received, including concerns raised about the costs of aligning with IFRS 16's principles outweighing the benefits, particularly for smaller companies and charities.

The periodic review will also consider the UK Government's smarter regulation non-financial reporting review, which includes reviewing the threshold definitions within the Companies Act 2006 for micro-entity, small and medium reporting and also how standards introduced by the International Sustainability Standards Board (ISSB) could be integrated into the UK's reporting framework.

The International Accounting Standards Board's (IASB) second comprehensive review of the IFRS for SMEs Accounting Standard will also be considered as part of the project. The final amendments are likely to differ in a number of respects from the FRED 82 proposals. **Read more here.**

The consultation response from the SORP committee is available on the charity SORP website **here.** The response highlights that 99% of the charity sector are small entities and that FRS 102 is not proportionate to the characteristics of small not-for-profit entities. Comments are also included in respect of comparative figures, reliable measurements for donated goods and facilities, disclosure of non-exchange transactions and income from legacies.

We await eagerly the publication of the revised charity statement of recommended practice (SORP), which will need to follow the publication of the amendments taking into account the above. The timeline for its application has moved from the accounting period beginning on, or after, 1 January 2025 to 1 January 2026 at the earliest; this being a year later than FRED 82 originally proposed.

Transforming your employee rewards

Laura Masheder
Partner
laura.masheder@bhp.co.uk

Laura Masheder considers the many non-monetary benefits you can provide to attract and retain the right people.

Across all industries, staff recruitment and retention appear to have been key challenges, which everyone continues to grapple with. A report released in March 2023 by Pro Bono Economics and Nottingham Trent University found that 70% of charities have found it difficult to recruit and retain staff, with salaries lagging behind commercial counterparts contributing to the recruitment challenge. This has led to many employees taking on additional duties to help pick up the shortfall and, in some cases, charities having to cut services due to an inability to deliver, all in a time of growing demand.

Sadly, this doesn't feel like a challenge that is going to disappear quickly for the sector. The report states that charity employees earn on average 7% less than counterparts in other parts of the economy — a gap that has widened over the last two years. The sector is becoming increasingly less attractive based on remuneration alone.

Without doubt, the sector benefits from the huge commitment of the individuals who choose to work in it. However, with the salary gap widening and with the pressures of the cost-of-living crisis, the charity sector needs to work hard to reward its people with non-monetary rewards.

Salaries are a big factor when deciding which roles to apply for or which offer to accept, but culture and values are critical — if the salary is competitive enough, you make your people feel valued, the working environment is good and the organisation is passionately mission orientated, you will retain and attract the right people. Non-monetary benefits can really help you recruit, retain and motivate your people. On the right, we've highlighted a number of different ways to do this.

In addition to the non-monetary benefits, there are also a number of tax-efficient benefits you can provide for your employees, which increase the value of the monetary package while managing the cost to the charity. These include benefits such as a cycle to work scheme, salary sacrifice pension arrangements and salary sacrifice for electric cars, which is becoming increasingly popular.

01 Culture

As a charitable organisation, you should lead with your purpose. Giving people the ability to do something that makes them feel good is a real competitive advantage.

02 Flexible and hybrid working

Work from home, working around personal commitments or an early finish Friday.

03 Working environment

Providing a safe working environment with access to the equipment they need to do their work. Add the nice extra touches. Little things really mean a lot to people.

04 Spending time with the team

Regular catch ups, team lunches, taking employees out for a coffee away from the office.

05 Give recognition

And give the team the opportunity to show appreciation — employee of the month, e-cards, employee benefits platform. Make sure everyone can see what the reward is for and why!

06 Give the team responsibility

People are motivated by being challenged and kept interested.

07 Personal development/training

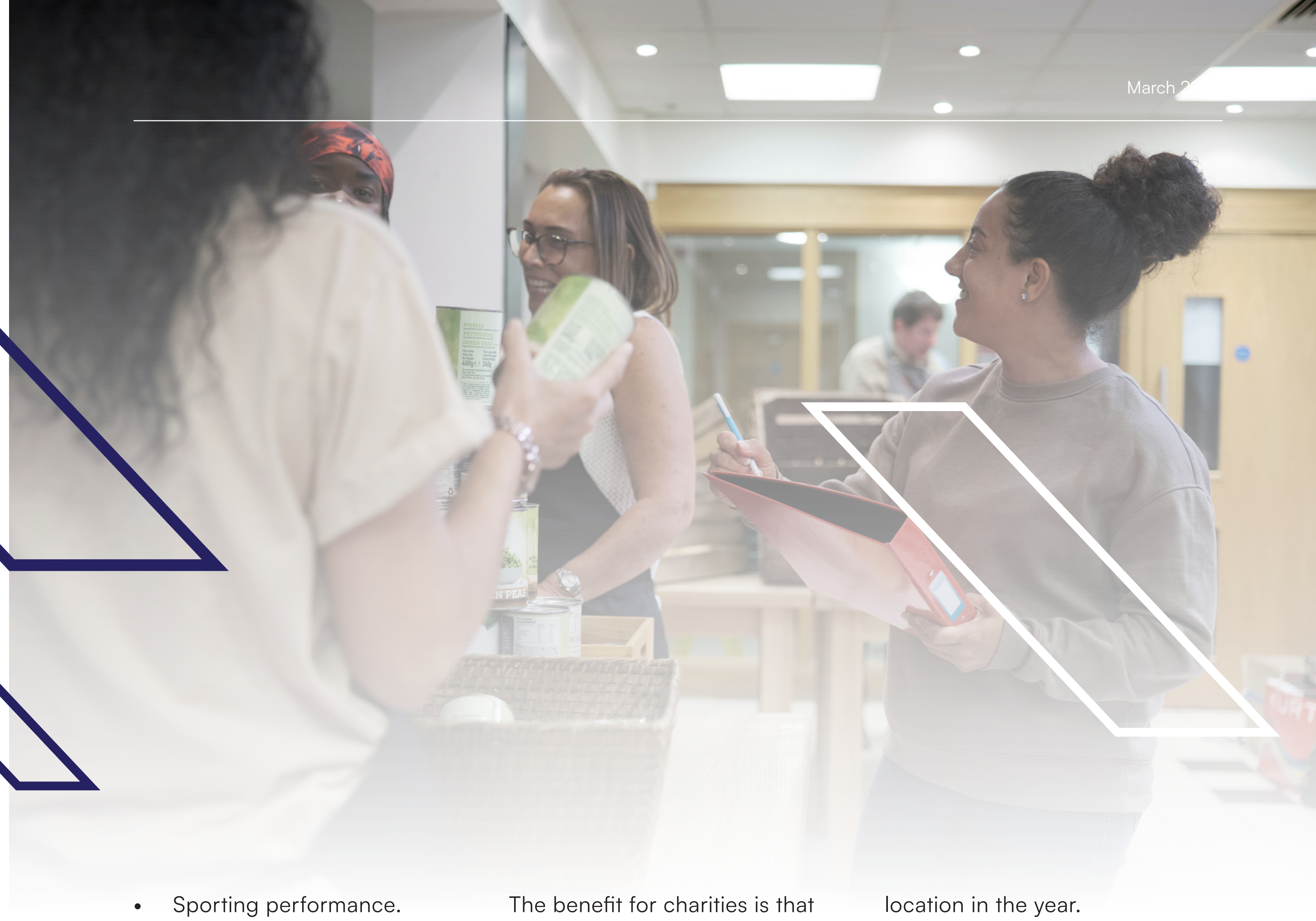
Support programmes for new employees, relevant work-based training and development opportunities.

08 Wellbeing events/apps

Promote wellbeing activities and provide employees with opportunities or subsidise healthcare schemes providing access to services and help with care costs.

09 Involve your employees

Ask them what they would value and listen to them!



VAT and the fundraising exemption

Carla Horsfall
Director
carla.horsfall@bhp.co.uk

Carla Horsfall explains the VAT fundraising exemption in relation to charity events.

Many charities rely on fundraising income as a primary source of funding, often utilising the VAT fundraising exemption. It's crucial for charities to stay updated on the exemption conditions to maintain eligibility. Here's a recap of the qualifying conditions for exemption: if met, VAT cannot be imposed on event supplies, as the exemption is mandatory.

The supply of goods and services by a charity in connection with a fundraising event is exempt from VAT if the event:

a) is organised for charitable purposes by a charity or jointly by more than one charity;
b) whose primary purpose is the raising of money; and
c) is promoted as being primarily for the raising of money.

If the above conditions are met, then an event can qualify for VAT relief under the fundraising exemption.

However, the exemption will not apply if there are more than 15 events of the same type, in the same location, within any financial year. A live performance would count as one event and, if it was repeated weekly in the same location, each performance would count towards the 15-event limit.

It's important for charities to plan fundraising events in advance. In a financial year, if the 15-event limit is exceeded, none of the events will qualify for exemption. It isn't just the ones over the limit. If we take the above example of a live performance, by planning in advance a charity could avoid hitting the 15-event limit by holding the event in different locations.

Examples of events that can fall within the exemption include:

- Ball, dinner dance, disco or barn dance.
- Performance - concert, stage production and any other event that has a paying audience.
- Showing of a film.
- Fête, fair or festival.
- Horticultural show.
- Exhibition — art, history or science.
- Bazaar, jumble sale, car boot sale, or good-as-new sale.
- Sporting participation (including spectators) — sponsored walk or swim.
- Sporting performance.
- Game of skill, contest, or a quiz.
- Participation in an endurance event.
- Fireworks display.
- Dinner, lunch, or barbecue.
- An auction of bought-in goods — an auction of donated goods is zero rated.

The exemption doesn't just apply to the admission to an event, but also to the sale of any merchandise at the event, as well as sponsorship and sale of advertising in programmes.

However, the sale of any surplus merchandise after the event takes place will not qualify for exemption and normal VAT rules will apply.

The benefit for charities is that they do not have to charge VAT on income such as entrance fees, but this does mean that VAT cannot be recovered on related costs. Although, recovery may be possible under the partial exemption de-minimis rules.

The aim of a fundraising event is to raise money for your charity. Therefore, if the fundraising exemption is not beneficial because you are unable to reclaim the VAT incurred on event expenditure, you may want to consider failing one of the exemption conditions. This could be achieved by not promoting the event as being primarily for the purpose of raising funds, or by ensuring that you hold more than 15 events in the same location in the year.

The key messages for charities obtaining relief via the fundraising exemption are:

1. Keep up to date with the conditions to ensure that they still apply to fundraising events/ activities.

2. Plan in advance.

3. Consider if the exemption is beneficial.

2024 Charity Trustee Training programme

We are delighted to share with you the dates for our 2024 trustee training programme.

These informative and practical online webinars offer a comprehensive introduction for new trustees, as well as a useful refresher for existing trustees, ensuring they are fully aware of their legal and financial responsibilities.

The advanced session will also look in further detail at some of the key responsibilities for charity trustees and provide practical guidance and tips to help you manage some of the challenges in the sector.

Speakers
The speakers from BHP will be Laura Masheder, Charity Partner and Rachel Heath, Director, as well as Catherine Rustomji, Partner and Head of Charities at Shakespeare Martineau.

18 April 10.00am — 12.30pm. Introductory Session

An introduction to financial and legal responsibilities of trustees — particularly useful for newly appointed trustees or those seeking a refresher session. This session will cover the legal aspects of different charitable legal structures, an explanation of terminology and a practical overview of the legal duties and responsibilities of trustees, including the specific standards against which they are measured. Key areas in terms of financial responsibilities cover the content of the trustees' report, understanding the different types of funds a charity can hold, an overview of the key aspects of financial management including reserves policies, the use of trading subsidiaries and trustees' responsibilities for serious incident reporting to the Charity Commission

14 May 10.00am — 12.30pm. Advanced Session

The advanced session takes a more in-depth look at charity governance, including the principles of good decision-making, collective responsibility and duties of confidentiality. It will also cover financial issues, including a brief reminder of some of the introductory principles, financial procedures and controls, a more in-depth look at reserves policies, the need to carry reserves and managing your charity through challenging times. This includes the things you need to think about as many organisations look to diversify and do things differently, including the risk of operating outside your charitable objects and tax considerations.

How to book
To book your place, please click on the relevant link below:

18 April: Introductory session
14 May: Advanced session

BHP Charity Team training day

At BHP, we're really proud of our specially trained Charities and Not-for-Profit Team and the service we provide for our clients.

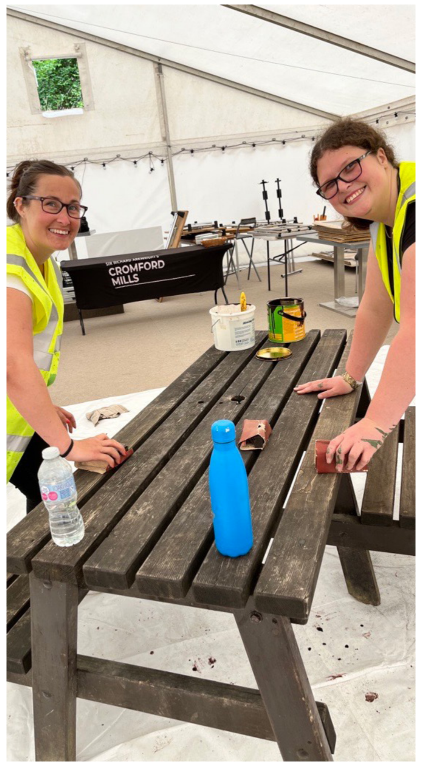
We've been repeatedly recognised, at a national level, by Charity Finance Magazine in its annual audit survey. Most recently, in December 2023, BHP was named in the top 12 Charity Audit firms in the UK. No one at BHP works with charity clients unless they have been specifically trained to do so.

The recognition is based on feedback from clients and saw the firm top the national table for client service, scoring 97% for charity expertise and marking the 12th consecutive year of high scores for the firm.

But we never rest on our laurels and we're continually updating and refreshing our knowledge to ensure we continue to provide the best possible support and quality audits for our valued charity clients.

Earlier this year, our team came together for a day of topical updates, training and practical workshops off-site at Bramall Lane in Sheffield. We covered a variety of topics including audit best practice, accounts preparation and disclosures, and we also took part in a charity tax workshop.

Internal training days like this enable us to get together as a team, share expertise and discuss how we can continue to deliver an outstanding and quality service.



We're looking for volunteering opportunities!

Jade Boam
Senior Manager and Chair of our CSR Committee
jade.boam@bhp.co.uk

Volunteering is a fantastic way to help others while improving wellbeing, gaining new skills, and enjoying new experiences.
At BHP, we're lucky to have the opportunity to take a paid day out of work each year to carry out voluntary work. Our people can organise their own volunteering activity for a charity close to their hearts, or they can choose to take part in a BHP-organised event. Last year, teams took part in eight volunteering days across the Yorkshire and North Derbyshire region.

One day in June 2023, a group of volunteers from our Chesterfield offices took a day out to visit The Arkwright Society at Cromford Mills in Matlock.

The Arkwright Society is involved in the practical conservation of industrial monuments and educational activities. Built in 1771 by Sir Richard Arkwright, Cromford Mills is the world's first successful water-powered cotton spinning mill and is the Northern Gateway to the Derwent Valley Mills UNESCO World Heritage Site.

Our team carried out a variety of tasks including sanding, oiling, and painting picnic benches for the cafés, sorting through the attic in the mill and tidying and disposing of items, painting a bin store, and weeding along the canal and in other public areas. Cromford Mills is one of our own clients, and it was fantastic to be able to spend some time supporting the charity. This year, our people will once again be encouraged to use their volunteering day, and we're now looking for charities to support.

If you're interested in getting involved and would benefit from receiving a visit from a team of volunteers, please get in touch with your usual BHP contact.
You can watch a video roundup of our 2023 volunteering activity here.

Get in touch

0333 123 7171
info@bhp.co.uk

bhp.co.uk