PRICE BAILEY | CHARITY NEWS MARCH 2014

GROWING AND GIVING

Specialist advice and
information from the
Price Bailey Charities Team

Price Bailey
CHARTERED ACCOUNTANTS

Welcome to our first charities and not for profit newsletter

This newsletter has been published and sourced independently by our specialist charity and not for profit team, which is headed by Helena Wilkinson.

Helena joined Price Bailey in the summer of 2013 and brings with her 25 years of experience in the sector.

Helena is supported in the team by Price Bailey Partners; Daren Moore, Richard Vass and Gary Miller who all bring their own invaluable experience and expertise.

With challenges to funding and a growing need to demonstrate commerciality, transparency, accountability and responsible governance in the sector, it takes a lot of dedication to keep a charity and not for profit organisation performing at its best, and we hope that our bi-annual newsletter will help by keeping you updated and informed of the latest legislation and topical issues.

Charity pay is likely to remain topical in 2014 with more transparency and disclosure required. Helena summarises some of the debate to date with Gary, covering current governance challenges from an academy school's perspective. Looking forward to Budget Day in March, we pick up some of the themes in the Autumn Statement and remind charitable companies about changes to their Annual Reports.

Events and updates

Our charity events are based in East Anglia and London and focus on topical issues related to the sector.

For more details on our upcoming events please visit **www.pricebailey.co.uk/events**.

Price Bailey has a number of groups on LinkedIn

This includes our specialist Price Bailey Charities and Not for Profit Services. We'll be using this group to publish news and developments from around the sector that we think might interest you, and would be delighted to welcome new members.

External recognition of our audit team

Audit Award of the Year - We are delighted that part of our not for profit sector audit team won Audit Award of the Year at the British Accountancy Awards 2013, and recognition of the added-value service provided to our clients.

The British Accountancy AWARDS 2013 WINNER

A charity-focused round up of the Autumn Statement

This article was written by Helena Wilkinson.

If you have any questions regarding this subject, please contact her on:

T: +44 (0)1223 507649
E: helena.wilkinson
pricebailey.co.uk

On the 5 December the Chancellor presented the Autumn Statement.

5 days later, the Government published a number of tax consultation responses and draft legislation to be included in the Finance Bill 2014.

The key highlights of the charity-specific provisions were as follows:

Joint registration - The Autumn Statement has announced that HMRC will develop a new online portal allowing organisations the ability to jointly register with the Charity Commission for England & Wales and HMRC with a single application. This new system is expected to be introduced in 2015. Once operational, its functionality will be extended to Scottish and Northern Irish charity regulators.

Gift Aid - The Government will consult charities and sector representatives on how to revise the model Gift Aid declaration to make it simpler and to encourage more people to sign up. Furthermore, the Government will also be looking at how to simplify digital giving and managing these declarations through intermediaries.

Social investment - From April 2014 the Government will be introducing two social investment tax reliefs. One is a tax relief for social enterprises which will be available for certain equity and debt investments in charities, community benefit societies or community interest companies. The other will be in relation to social impact bonds for 'special vehicles' structured in a company limited by shares. More in our 'Feeling Social' article in this newsletter.

Anti-avoidance - Following the Cup Trust, it is not surprising that the Autumn Statement included the introduction of anti-avoidance legislation. In the Finance Bill 2014, legislation will be brought in that prevents a charity established for tax avoidance purposes from being entitled to claim tax reliefs. This planned legislation will need to be carefully reviewed by the sector to ensure that its definitions are not too narrow, constrictive or have adverse affects on the wider (and honest!) charity sector.

Stamp Duty Land Tax (SDLT) - The draft Finance Bill 2014 includes proposed legislative changes to make it clear that where a charity purchases property jointly with a non-charity, the charity will be able to claim partial relief from SDLT for its proportion.

Other general changes worthy of note are:

- Employers National Insurance contributions abolished for employees under 21 where they earn less than the Upper Earnings threshold
- Further Government departmental cuts are planned and also a cap on the welfare budget, which may increase pressures on charities from both income and service perspectives
- £1,000 rate relief for properties that have rateable values of £50,000 or less for retail and food and drink premises and will include business rates owed on charity shops where the discretionary relief has not been given
- Fuel duty freeze and business rates increase has been capped at 2%
- Consultation expected in 2014 for limited tax reliefs for commercial theatres

Financial reporting: What will this look like to a sceptical public?

This article was written by Gary Miller.

If you have any questions regarding this subject, please contact him on:

T: +44 (0)1279 712719
E: gary.miller@pricebailey.co.uk

Now I am not a regular reader of The Guardian, but two articles have caught my eye over the last few weeks...

The first article was concerning a report on the value of transactions with related parties disclosed in accounts of academy schools and the second was how the National Audit Office had to qualify the accounts of the DfE because it was impossible to get sufficient assurance about the regularity and propriety of school expenditure.

Neither of these articles contained surprising news for someone working in the sector, but my attention was drawn to the somewhat biased nature of the comments attached to these articles. These comments displayed a staggering lack of any actual knowledge whatsoever of what respondents were commenting upon. This public distrust of the sector has also grabbed the attention of the academy regulators at the Education Funding Agency (EFA), as questions about the 2013 accounts start to come in.

So far, and almost without exception, all related party transactions declared within the accounts are the subject of further disclosure no matter how detailed the original note. School governors at academies are just waking up to the heightened scrutiny that charity trustees have been facing for the last few years, all against the background of a sceptical public and even bodies, such as the Public Administration Select Committee (as far as the topic of charity chief executive pay is concerned).

Of course, wherever there is money there will be rogues and it is perfectly correct that these are sought out and punished. However, these cases put extra pressure on the activities of the thousands of unpaid volunteer charity trustees, working tirelessly for their favourite cause.

It is an unfortunate by-product of our sceptical society that "doing the right thing" is often not enough. Being seen to do the right thing is the requirement. So what is "the right thing"? Well, I am an auditor so naturally I gravitate towards finance; so at that level, at the bare minimum every trustee, finance based or not, should have read; digested and have to hand, a copy of the Charity Commission guidance, Internal Financial Controls for Charities. From the small charity "we don't have that many transactions – we know what we are doing" through to the larger charities "finance – other board members look after that", I find the lack of awareness from some trustees of this document, frankly worrying.

It's mostly a thankless task being a charity trustee and whilst you may not expect effusive thanks, you really don't need unwarranted scepticism. Make sure you don't give them the ammunition.

New requirements for charitable companies

This article was written by Paul Fox.

If you have any questions regarding this subject, please contact him on:

T: +44 (0)20 7382 7416
E: paul.fox@pricebailey.co.uk

All medium and large charitable companies will need to have a Strategic Report in their accounts for all accounting periods ending on or after 30 September 2013.

This replaces the Business Review, and it does not need to be a separate document but it does need to be clearly identifiable within the Trustees or Director's Report.

The Strategic Report needs to be a fair and balanced analysis which is consistent with the company's size and complexity and needs to include:

- A fair review of the business (this analysis should cover the development and performance of the company during the year and its position at the end of the year with information on financial key performance indicators. For larger companies, other key performance indicators, such as environmental and employee matters should also be included)
- A description of the principal risks and uncertainties facing the company, including any other strategic information that the directors consider relevant

Other small changes include:

- Small and medium sized companies will no longer have to disclose their principal activities, charitable donations or information on purchase of own shares (political donation disclosure is still required)
- Medium sized companies in addition, no longer need a statement of policy for the payment of creditors or to disclose significant differences between book value and market value of land and buildings

Interestingly, the draft Statement of Recommended Practice (SORP) has included the need for larger charities to disclose more information in their Trustees Report. It must provide a balanced picture of a charity's progress against its objectives, significant activities in the year and its principal risks and uncertainties, together with the Trustees plans and strategies for mitigating these (larger charities are those that are subject to audit). Therefore, the draft SORP, if introduced as it stands, will require more detail in a Trustees report akin to the information in the Strategic Report but for periods starting after 1 January 2015.

In the meantime, charitable companies that are deemed medium or larger will need to comply with these new requirements earlier, as indicated above.

Further information on the Strategic Report can be found in Information Sheet 5 recently issued by the Charity Commission.

How much is your chief executive worth?

This article was written by Helena Wilkinson.

If you have any questions regarding this subject, please contact her on:

T: +44 (0)1223 507649
E: helena.wilkinson@pricebailey.co.uk

Last summer, chief executives' pay in the charity sector was in the spotlight, with press articles highlighting those earning more than £100,000.

The trustees and chairs of these charities received numerous emails from beneficiaries, supporters and the public seeking explanations and justification of the pay levels.

Some of these charities reported a decrease in donation income from the public as a result of this publicity. Interestingly, on 17 December 2013, the Public Administration Select Committee (PASC) held an oral hearing on Charity Chief Executive Pay. The meeting was chaired by Bernard Jenkin MP. He made it clear that the PASC committee does not regulate charities – its jurisdiction is to scrutinise the role and function of the Charity Commission and the hearing was being called from that perspective.

The salaries of CEOs paid over £100k (e.g. National Council for Voluntary Organisations (NCVO) whose CEO earns £128K and the Association of Chief Executives of Voluntary Organisations (ACEVO) whose CEO earns £104K who were both represented at the hearing) were queried. The PASC committee challenged the pay rate of over £100K particularly as these organisations are funded by other charities and government – why not nearer £60K? The PASC committee were querying whether the pay level was really required in order to attract and recruit high calibre people. One of the charities in attendance highest paid individual was on less than £46K and their pay is set with regard to the charity's values and from listening to their donors when looking at their pay scales. The PASC committee commented that this policy was 'very admirable'.

The PASC committee picked up on the theme of values and ethos several times during the hearing – stating that 'there is a clear lack of focus on ethos and values in their remuneration'. The PASC also posed the question 'how do we inject the true spirit of charity back into charities?'. Another comment included 'the essence of charities is not donating to a self-servicing organisation'.

'The Good Trustee Guide' produced by NCVO has its number one focus on the ethos of the charity when considering remuneration. ACEVO has set out five principles in their response to PASC which they used to issue the ACEVO Good Pay Guide in January 2014 and is available on their website.

There was clear consensus from the panellists that pay is not the focus for a charity but their outcomes, how well they serve beneficiaries and value for money. Charities should be judged on their achievements and delivering their mission in the right way; and not looking at salaries in isolation.

How much is your chief executive worth?

NCVO is undertaking an executive pay enquiry which, expects to achieve a clear set of principles to guide trustees on setting their level of executive pay; this is expected early in 2014.

PASC asked the panellists' views on what powers the Charity Commission should be given in respect of governing remuneration in the sector - such as some control over salary levels – to which the unanimous response was "no". With regard to full transparency of pay levels, this is already provided to some extent by the requirements of the SORP and disclosure of bandings in charity accounts but it was clear that the PASC Committee wanted more.

The question posed to each charity was, "do you have your senior management team pay disclosed clearly on a separate page on your website – and if not, why not?" This is a clear steer as to what the PASC committee expects all charities to do. The key theme was more transparency – on pay, on how pay is awarded and how decisions are made. There was also an underlying theme throughout, that charity chief executives are paid too much.

> "It is important that charities are transparent about their remuneration. Charity accounting rules require disclosure of charity employees in each £10,000 income band over £60,000. Specific concerns of disproportionate executive pay in a charity in England or Wales should be referred to the Charity Commission."

Nick Hurd
Minister for Civil Society

Feeling Social?

This article was written by Victoria Nicoll.

If you have any questions regarding this subject, please contact her on:

T: +44 (0)1223 696177
E: victoria.nicoll@pricebailey.co.uk

The Government is introducing a range of new tax reliefs available to those investing in 'social enterprises' on or after 6 April 2014.

Social Investment Tax Relief (SITR) will be available to individual investors in the following ways:

- Income Tax Relief on the amount of the investment (the percentage of which is yet to be confirmed but expected in the 2014 Budget). This will be limited to £1 million per tax year
- Deferral of Capital Gains at £1 for every £1 invested in SITR qualifying investments (until the investment is subsequently disposed of)
- Any gain made on disposal will be tax-free (provided the investment has been held for three years). Rules will be introduced to prevent an investor claiming SITR from also claiming Enterprise Investment Scheme (EIS), Seed EIS or Community Investment Tax relief on the same investment. Although similar, some key differences to EIS Relief are:
    - the reliefs will be available for certain loans made
    - the reliefs will be available for investments by individuals in social enterprises that meet the eligibility conditions. For these purposes a 'social enterprise' will include charities, community interest companies and community benefit societies
    - the social enterprise must have fewer than 500 employees
    - the maximum amount that a social enterprise can raise through tax relieved investment over a three year period will be determined by a formula that will take account of the tax reliefs available to the investee organisation. The exact amount will depend on the rate of relief, which is still to be announced
    - the money raised through SITR must be used within 28 months. SITR is a welcome relief to encourage individuals to invest in small social enterprises

Watch this space for further updates and practical information on implementation as further detail becomes available.

Contact us

For specific advice please contact:

Helena Wilkinson, Head of Charities
T: +44 (0)1223 507649
E: helena.wilkinson@pricebailey.co.uk

Gary Miller, Partner
T: +44 (0)1279 712719
E: gary.miller@pricebailey.co.uk

Daren Moore, Partner
T: +44 (0)1603 709330
E: daren.moore@pricebailey.co.uk

Richard Vass, Partner
T: +44 (0)20 7382 7415
E: richard.vass@pricebailey.co.uk

W: http://www.pricebailey.co.uk/sectors/not-profit

Feedback

Please let us know what you think of this newsletter. Your feedback is really useful to us and will help us to improve future editions.

Please click here to take the short questionnaire.

Thank you!