UHY Hacker Young
Chartered Accountants

Charity and Not-For-Profit Sector Outlook

2019/20

Predictions for the year ahead plus tips and advice from our specialist charity and not-for-profit team.

Helping you prosper

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Editor's welcome

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We are entering a year of significant change for the UK, both economically and politically. Key decisions will need to be taken around Brexit and this will have a direct and long-lasting impact on the charity and not-for-profit sector.

Welcome to the fourth edition of our Charity Sector Outlook.

As we start 2019, we are entering a year of significant change for the UK, both economically and politically. Key decisions will need to be taken around Brexit and this will have a direct and long-lasting impact on the charity and not-for-profit sector. One key area of concern is the impact on research funding received from the European Union. On page 6, we outline the areas to consider for UK charities which currently receive EU funding.

On page 4, we take a look at how to improve income streams from Trusts and Foundations. Responsible for 16% of all private charitable giving in the UK last year, these can be an important source of funding for your organisation.

Recently, there has been an emphasis on how organisations in the UK can utilise technology to further their objectives. We discuss the implications of Making Tax Digital for the charity sector and the impending changes to the VAT return system.

The Charities SORP has been updated for periods commencing on 1 January 2019. In particular, accounting for Gift Aid will change significantly. We look at this and other amendments on page 12.

In addition, the Charity Commission has provided updated guidance on trustee recruitment, and we discuss the implications for your charity.

Finally, we are delighted to interview Ian Hughes, the Finance Director at the National Lottery Community Fund. Ian discusses the challenges facing the charity sector and how his organisation is dealing with them. He also shares with us how the Big Lottery plans to develop over the next few years to best serve its stakeholders. We thank Ian for his time and hope you enjoy reading this piece.

We wish you all the best over this period of change and hope that you find this Outlook helpful. We have provided contact details on page 17. If we can be of any assistance, please do not hesitate to contact us.

Changes to VAT returns from 1 April 2019 – are you ready?

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This is one of the most significant changes to the VAT return system. It is an opportunity to streamline VAT reporting and remove the possibility of transposition errors.

HMRC have extended the deadline for Making Tax Digital (MTD) for VAT by six months to 1 October 2019 for the following VAT registered organisations:

- trusts
- 'not for profit' organisations that are not set up as a company
- VAT divisions
- VAT groups
- those public sector entities required to provide additional information on their VAT return (Government departments, NHS Trusts, etc.)
- local authorities
- public corporations
- traders based overseas
- those required to make payments on account
- annual accounting scheme users.

This is a significant development. The scope of MTD has been reduced already and now we see a deadline extension for these bodies. It is also worth noting that this update is contrary to the largely positive commentary provided by HMRC in respect of the progress of MTD.

What is MTD?

Mandatory changes come into effect on 1 April 2019 (or 1 October 2019 for the above entity types) that will fundamentally change the VAT return system. You will no longer be able to submit returns through the government gateway and instead must use software that will allow digital submission to HMRC. The changes will mean that VAT returns starting on or after 1 April will be subject to the new rules.

The changes are referred to as 'Making Tax Digital' or MTD. It is a change designed to reduce tax errors and produce additional revenue of £1bn by 2020 for the Treasury.

For accounting software to be MTD compliant it must be able to:

- record and preserve digital records
- provide HMRC with information and returns from data held in those digital records, and
- receive information from HMRC via their Application Programming Interface (API) platform.

The software must have digital links so that there is a record of the 'digital journey' of the data. HMRC are allowing a 'soft landing' on digital links with full requirements needed to be met by 31 March 2020. This is a legal obligation.

This is one of the most significant changes to the VAT return system. It is an opportunity to streamline VAT reporting and remove the possibility of transposition errors. However, it does require some work to ensure organisations are complying with the new rules.

Penalties

One important thing to bear in mind is the interaction with penalties for late submission and payment. These are based on a flat percentage of the tax due. Unfortunately, there is no concept of proportionality. A recent case saw a penalty of £300,000 confirmed – the taxpayer in question had paid one day late.

It is hoped that HMRC will apply a light touch to penalties when the system is introduced. HMRC focus on reasonable care when considering penalties so every VAT registration needs to be working to this standard and organisations will need to evidence that appropriate care was taken during the submission process.

What steps should I take?

If you prepare returns using an accounting package then your provider should be developing software to ensure you are compliant. If you use a spreadsheet then you are likely to need some bridging software which will allow submission. There are a number of software providers offering 'bridging software' solutions. This is a low cost option – annual fees can be as low as £75.

We can help

We have undertaken a detailed review of the bridging software available and selected our preferred provider. We will be making this available to clients and we can also undertake reviews of returns prior to submission, which is good evidence of reasonable care for HMRC. If you would like to discuss this issue, please do not hesitate to contact your usual UHY contact.

Fundraising: improving your income streams from trusts and foundations

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Last year, 16% of all private charitable giving in the UK came from trusts and foundations. Is your charity getting its share of these funds and what can you do to access more?

Trusts and foundations

In practice, these terms are virtually interchangeable and describe charities with private independent and sustainable income that achieve their charitable aims by funding and supporting other charities, organisations or individuals. This is usually done by making grants on a one-off or regular basis, normally in response to applications made to them. As well as supporting registered charities, some trusts also support educational and research establishments, community projects or similar. Some work to influence social attitudes or government policy.

According to Foundation Giving Trends 2018, a report commissioned by the Association of Charitable Foundations, the majority of the top 300 foundations (26% by giving) have been set up by families and family businesses. Others are corporate foundations (12%), publicly-funded (17%), and some are dedicated to a single cause or beneficiary. The top 300 foundations made grants of £3.3 billion in 2016/17 (the latest available data), an increase of 10.9% on the previous year. Total grant-making by all trusts and foundations is estimated at £6.5 billion in the same year, out of a total of all private giving of £20.7 billion.

Most trusts and foundations are members of the Association of Charitable Foundations (ACF) whose website is worth a visit: www.acf.org.uk.

The benefits

Compared with raising funds from many individual donors, obtaining grants from foundations is usually cost-effective. Although you may have to spend more time and resources on preparing your case, generally more funds can be unlocked. Furthermore, if you are successful at building and maintaining a solid relationship, foundation income can be regular, dependable and predictable.

Such income is also perfectly suited for those one-off, separately identifiable projects or large items of capital expenditure. Some foundations like to support pilot schemes or experimental projects.

The practicalities

The charities that are most successful at attracting funds from foundations are those that have an employee or volunteer who is dedicated to that particular task.

It is also useful to have a customer relationship management (CRM) system to keep track of the progress of applications and to maintain good communications with donors. A very small charity might be able to do this simply with a spreadsheet maintained by a well-organised and tenacious team member.

We would recommend the following process:

1. Clearly define the project or ongoing need for which funds are required. Foundations are more likely to support an identifiable project than just give funds to support the charity's general objectives. You also need to be able to describe the impact that your project is expected to have.
2. Carry out research; you need to identify the trusts or foundations whose objectives coincide most closely with those of your charity. You can use the Charity Commission's website for this by carrying out searches on key words that describe the work that your charity does, for example 'homelessness' or 'drug rehabilitation'. There are other funding websites that might help you to narrow this down a little, for example fundsonline.org.uk and botw.org.uk.
3. Prepare a shortlist and make first contact with your selected trusts. You will find that some have application forms and formal procedures. Others welcome an informal approach by letter. You should be prepared to give a good account of your charity's work, its achievements, structure and organisation, and be able to describe in detail how the Trust's contribution will make an impact.
4. Track the progress of your applications carefully, and follow up as appropriate.

Nurture the contact

If you are successful in obtaining funding some effort needs to be expended to keep your donor informed and involved. Thanks and feedback are extremely important in building a long-term relationship. Trustees should be invited to significant events, and should receive photos of each stage in your project or of (consenting) beneficiaries of your charitable work. You should also send copies of the annual report and occasional bulletins.

Finally, remember that you are in competition with others for the support of trusts and foundations. If your charity does not have the right skills to make a successful application you need to consider recruiting an experienced person or investing in external training for those involved.

Don't overlook or underestimate this potentially valuable contribution to your fundraising. If you would like further advice, please feel free to contact me r.givans@uhy-uk.com or your usual UHY adviser.

The top 300 foundations made grants of £3.3 billion in 2016/17, an increase of 10.9% on the previous year.

The Brexit effect on research funding for charities

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The United Kingdom is at the forefront of technological research. It has world class research facilities, exceptional standards with a history of innovation. It attracts the best research scientists from across the world.

With other European countries seeing 15-20% increases in funding from EU grants in 2018, while the UK saw a similar decrease, it seems our vote to leave is already taking effect. What will Brexit mean for the future of what has been significant investment in this area?

UK vs EU funding

Investment in this sector from UK funding has been an important part of public policy, and has been protected from government cuts. The budget for funds provided to research bodies in 2016/17 was £4.7bn, and this is set to increase in cash terms through to 2020. There was record investment in new scientific infrastructure and a commitment to a total investment of £26.3 billion for the period 2016/17 to 2020/21.

In addition to that funding, the UK received €1.94 billion in 2016 from the EU, typically made available through research funding frameworks, such as Horizon 2020.

The UK Treasury announced in July 2018 that EU grant funding secured by UK organisations is guaranteed until the end of 2020. However, funding to the UK has already decreased by 20%. Other countries have seen increases over the same period with EU grants to Germany increasing by 20% from €1.41bn to €1.93bn, and grants to France increasing by 16% from €1.32bn to €1.53bn

The budget for funds provided to research bodies in 2016/17 was £4.7bn, and this is set to increase in cash terms through to 2020.

It is not anticipated that any EU grant funding will be available to UK businesses once Brexit is complete, inevitably leaving a shortfall in funding, and there is still no clear indication how this will be filled.

A nasty knock for collaboration

Historically, collaboration has been a real feature of these projects. The intention is to share resources and knowledge across researchers, across the EU. Brexit could therefore result in the UK's exclusion from these collaborations, particularly under World Trade Organisation rules, which stipulate.

There is also the risk that highly skilled, irreplaceable researchers leave the UK to undertake positions with other research providers. An open letter from Trinity College Dublin published in the Financial Times on 1 November 2018 referred an increase in job applications from UK scientists. The College expressed their preference that the scientists remain in the UK and that they continue their existing close relationship with UK researchers through existing EU funded programmes. The letter called for "prudence, deliberation and foresight" in respect of Brexit.

The letter speaks of the strong research network which has been built over the past four decades "by the largest collaborative research network in history, the EU", and the "threat of rupture" Brexit now poses to these hard won collaborations. The letter quoted 18th-century philosopher, historian, politician and Trinity graduate, Edmund Burke, stating, "Rage and frenzy will pull down more in half an hour than prudence, deliberation, and foresight can build up in a hundred years."

Other matters

Much of the capital investment in these projects has been geared to the development of buildings used exclusively for publicly funded research, with innovation campuses built to exploit any Intellectual Property developed. In some cases, these developments were undertaken based on a ten or 25 year business plan. There will be pressure to maintain this funding to ensure the return on investment over the duration of the projects' lifecycle and keep the UK at the forefront of this critical sector.

As a tax partner, I have to consider the tax implications of this funding shortfall. For example, if the income shifts from publicly funded research to commercial income, the tax treatment changes. If the research facility benefited from zero rating due to its status being for charitable use, this may result in a tax adjustment, which could be significant as there is a ten year window for such adjustments. There could be a significant clawback of VAT by the treasury, totalling millions of pounds for some research providers. There is an option to leave the facilities unused until the adjustment period expires but this is clearly a waste of important, and often unique, assets.

There is a possibility that, post-Brexit, the UK is able to introduce more flexibility in respect of its tax rules. This might result in further reliefs to allow better freedom to operate by research intensive organisations. However, this is dependent on a number of factors, and unlikely to be progressed even in the medium term. Given the current climate, it seems difficult for the UK to persuade the EU to allow efficient collaboration with EU research providers.

What next?

It seems evident there are issues relating to a general decrease in funding due to the withdrawal of EU funding; a loss of important collaboration opportunities and a potential loss of talent. It will be interesting to see how this issue develops; one of the many areas of uncertainty that will need both clarity and resolution.

If you would like to discuss the above or, in particular, the VAT aspects in relation to research funding, please do get in touch.

It is not anticipated that any EU grant funding will be available to UK businesses once Brexit is complete, inevitably leaving a shortfall, and there is still no clear indication how this will be filled.

In the spotlight: Ian Hughes, Finance Director, The National Lottery Community Fund

Ian Hughes
Finance Director
The National Lottery Community Fund

"The challenges for small charities generally are not that dissimilar to any organisation in the UK. We all know many of the social issues that we face as a country and increasingly charities are at the sharp end of the impact."

We caught up with Ian Hughes, Finance Director at The National Lottery Community Fund, to hear about the amazing work the organisation does, as well as Ian's take on some of the current issues facing the charity sector.

Tell us about your background and how you ended up at the National Lottery Community Fund.

I qualified as a management accountant in industry and have spent the majority of my career in broadcasting; with Central Television, Carlton, and ITV, ending with nine years at the BBC. I joined the National Lottery Community Fund from BBC News and have been here for four years now. It was the scale of the organisation that attracted me – it's big enough to have a very wide scope but small enough that I can get my arms around all of it. My role covers Finance, HR, IT, Legal, Internal Audit and Facilities.

How have you found it has changed in the last four years?

I joined at the point where the organisation had already started on its current strategic framework, and it has been fascinating to see how we've developed our approach to grant-making, and the relationship with both applicants and grant holders. The organisation has moved from the centralised processing of grant applications to one that understands its customers and works with them to ensure that we meet the needs of communities across the UK with the funding available.

The scale is significant; we are by far the biggest community grant maker in the UK. On average over the last ten years we have given away £700m per year in grants and between 11,000 and 12,000 grants of varying scale.

There are complexities of course; you have to make sure you give grants to the right projects and ensure that due diligence has been undertaken, also ensuring it is spent as intended. Alongside that, we have all the responsibilities of being a public body and for managing public money that goes with that.

Tell us about the National Lottery Community Fund and its major achievements.

Since 2006, when the National Lottery Community Fund was formed (as the Big Lottery Fund), we have given away over £9 billion to local communities in the UK - a staggering amount! We are the biggest community funder, and we are also seen in the sector as one of the easiest funders to deal with.

Our processes are much simpler than many other grant-makers, with much less compliance. Even for £350-£500k grants, we are asking a relatively small number of simple questions about what the project wants to achieve, rather than line by line details of the different challenges and outcomes and so on.

The National Lottery Community Fund has had a few advancements in the digitalisation of the grant application process. Can you tell us more?

Yes, the whole approach to how we give funding has been completely overhauled.

We've moved our application form for small grants – up to £10k – from an application of 27 pages to one that's now just four pages. It's also available online. We are however still somewhat behind in the digital world – this application process is the first time we've had one online, and we need to roll it out to our other grant-making activities and offer other digital services including our learnings from past grants.

Have you found that, now it's easier to apply, you've had a larger number of applications?

Yes, that in itself is a challenge! The money we have available has shrunk a little over the last couple of years. Inevitably, as you make things easier and put them online, more people are interested. The resulting downside is that the success rate of applications has fallen.

What do you think are the biggest challenges facing small charities?

I don't think the challenges for small charities generally are that dissimilar to many others organisations in the UK. We all know many of the social issues that we face as a country and increasingly charities are at the sharp end of the impact. As a funder, we have identified a number of sector support priorities to guide our learning and funding. These include themes such as homelessness.

Over the last couple of years, have you seen any changes in the types of charities that have been applying, or any trends in that respect?

I think that's hard to call from the data we have. Part of the strategy we are adopting is that we are trying to get to smaller charities and community organisations – charities that wouldn't previously have considered applying, for whatever reason – so that it's not just 'the usual suspects'.

We want to connect more to the applicants, so we are increasingly going out to meet them where they operate, to understand their context rather than waiting to be responsive to what arrives on our desks.

What are the core principles of the National Lottery Community Fund?

We have six principles in our framework, currently being updated to seven, and there are some that resonate particularly strongly with me.

'People in the Lead' is our overall strategy statement.

What do we mean by that? Why would we know what's best for communities? It should be the communities that best understand their own needs and, critically, the likelihood of success is much higher if those communities are actively engaged in delivering that.

Our key test for applications in terms of the probability of success is where the application in communities demonstrates this 'people in the lead' approach.

'Confidence not control'

We have confidence in the communities that come to us, and we are not trying to control the activities and outcomes that they wish to achieve.

Our new core principle is **'FOR EVERYONE'**

Our funding is open to all communities, whatever their starting point, and we understand that some will need extra support.

We are trying to address the point that we don't necessarily only support those projects and applications in communities that are already well developed, and can deliver and evidence those things, because not all communities start with the same level of experience. So our assessment has to take into account their starting position.

"It was the scale of the organisation that attracted me – it's big enough to have a very wide scope but small enough that I can get my arms around all of it."

"We adopt a service design approach to develop the funding products we make available to potential applicants to simplify their connections to us and ensure we are providing the best possible service."

How do you decide who to fund?

We have two types of funding activity; 'responsive' and 'strategic'.

'Responsive' is where, although we'll have nominated named programmes, it is down to the proposing applicant community or organisation to set out their request for funding to us in an open application. We receive significant numbers of applications, and we make assessments and judgements based on the quality of the proposals and the funding we have available.

'Strategic' is where strategically we have a view, based on research in communities, from the larger charities, and many other organisations, about social needs and issues, and we are looking for partners to develop and improve activity in that arena. These tend to be our larger grants but are few in number.

Some examples of our strategic programmes are a programme called 'Women and Girls', which looks at deficiencies in that group, 'Better Start' which looks at economically challenged communities and how to help children aged between 0-5 years develop to maximise their potential, and 'Head Start', a mental health programme.

Within the 'responsive' arena, we have two main programmes; small grants, generally called 'National Lottery Awards For All', of up to £10,000 with projects expected to complete within a year. We give around 10,000 of these grants a year, totalling approximately £100m per year. These represent 80% of our volume, but only 20% of our value.

We receive around 20,000-25,000 applications for small grants, resulting in a success rate of approximately 50%. You can see the work that goes into both preparing and considering these applications, and four pages rather than 27 is a lot simpler for all concerned!

Then we have a range of large schemes in the responsive arena – the 'standard product' – which reach communities across the UK, these are the projects where we generally grant between £50,000-£500,000 over three to five years.

These projects are bigger in scale and typically they are for developed services, public halls, etc. (although we don't do much capital work these days).

How do you decide where to focus in order to make a particular impact in 2019?

We adopt a service design approach to develop the funding products we make available to potential applicants to simplify their connections to us and ensure we are providing the best possible service. At the same time, we aim to raise the profile of the incredible impact that National Lottery funding has within communities all across the UK.

Some of these things can get quite controversial and the areas we target can potentially expose us to reputational risk. Inevitably, some of these things are high profile and sensitive and can generate considerable interest externally.

How do you select successful applications?

Our overall corporate governance, as set out in the Lottery Act, requires us to have committees for each nation within the UK that are responsible for grant-making strategy and decisions in that territory.

These are independent, non-executive type committees. They oversee the strategy of each country's portfolio of grants and then make decisions based on pre-determined criteria.

The smaller value projects are delegated to officers within the funds. For example, in the 'Awards For All' arena (approximately 10,000 grants), all the grants are made locally by the relevant funding officers, depending on the risk profile and value when assessed.

We have approximately 800 staff; 450 of those are people who actively give or manage grants.

Every programme has certain criteria against which we assess the application. We need to ensure we only make decisions against those criteria and, as a public body, we can be subject to judicial review should anyone believe that we've failed to do that. If we see a project that we think has a particularly compelling theme, we can't make a judgement based on that if it doesn't also meet the criteria.

How do you plan financially – how do you know what you're getting year on year?

There are 12 distributors of funds from the National Lottery. There are five themes – sport, arts, heritage, charitable and education - each of these gets 20% of the net money generated. We are responsible for the latter two of those, so we get 40% of the proceeds.

Almost all of the other bodies also receive and allocate central government funding and other grant funding. We are the only exception – we have no government or grant funding whatsoever, just National Lottery incomes.

From time to time we do distribute grants and funds on behalf of other parties but we don't directly have any government budget to deliver government objectives.

One thing that is key to know is how much we have available to distribute, because our share of the net income is fixed but that income is hard to predict. We do of course need to forecast – it's incredibly complex. Every lottery game is different and all are to some extent games of chance!

We work very closely with the Gambling Commission to consider projections of future income and also with Camelot as the operator of the games.

Are National Lottery sales affected by the state of the economy?

There's no evidence over time that shows sales of any lottery or gaming product is particularly sensitive to the wider economy. I think there's a bit of human behaviour that suggests for all those with declining resources who reduce their spend, there are those who see the potential for winning as a positive option.

We work with Camelot who are trying to bring about changes in the games to keep the portfolio fresh and engaging. They seek to launch new games as the reach of others begins to wane – there's a product lifecycle to all of these things.

The original game grew and declined, was renamed Lotto, and grew and declined again. There's a new game from Camelot called Set For Life starting in March. We think it's quite attractive – winning a monthly annuity rather than a single cash prize.

Are you preparing for a surge of grant applications following our exit from the European Union?

I suspect my response is a similar response you'll get from many organisations no matter what they do, because who knows? There's going to be an impact. It's the impact of uncertainty on business that is the key issue for me.

We do have two EU matched funding schemes where we get money from the European Social Fund (ESF), and we've had many discussions with the government on those over the last few months to ensure we are able to continue to deliver effective programmes after March. We expect to be able to do that.

In terms of the impact of Brexit on small charities, do you think there is anything they could be doing now to prepare?

I think the answer is we should all be planning, but what do you plan for? This is especially challenging for small charities, because they don't have the available resources to do that.

I think smaller charities need to continue to focus on their mission while the sector as a whole needs to work to support one another by developing links between small and large organisations to thrive in a period of uncertainty.

"I think smaller charities need to continue to focus on their mission while the sector as a whole needs to work to support one another to thrive in a period of uncertainty."

Latest updates to Charities SORP

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We like to use our Outlook, regular updates and blogs to keep our clients and other contacts in the sector informed of all the latest and forthcoming regulatory changes likely to have an impact. The latest updates to the Charities SORP (FRS 102) have come into effect for accounting periods beginning on or after 1 January 2019.

This is an important update in terms of reporting. This update, Update Bulletin 2, was published on 5 October 2018 and sets out the various changes following amendments made to FRS 102.

In this article, our experts have summarised the five key changes that charities will need to consider.

Early adoption of this update is permitted provided you apply all amendments at the same time.

If you would like to speak to us on any of the changes above, or any other regulatory considerations, please contact one of our charity and not-for-profit specialists.

1. Comparative information

An additional paragraph has been included within the SORP which emphasises that comparative information must be provided for all amounts presented in the current period's financial statements, including the notes. Essentially, this means that for every number included for the current period, you must also include a corresponding figure for the prior period.

2. Gift aid payments made by subsidiaries

A large number of charities have trading subsidiaries, allowing them to run commercial operations and use the profits from those businesses for the benefit of the charity. Under UK tax law, these subsidiaries are permitted to pay their profits in full to their charitable parent without incurring corporation tax.

Up until now, it has been acceptable for the subsidiary to 'accrue' the gift aid payment within their financial statements at the company's year-end, even though the payment was to be made some time after the year-end. For accounting periods commencing on or after 1 January 2019, however, this gift aid accrual will be no longer be permitted.

This is because it has been argued that no legal obligation existed at the balance sheet date and, therefore, it would be incorrect to make such an accrual. The gift aid payment can now only be accounted for when paid, unless a Deed of Covenant is in place (which creates a legal obligation). It is worth noting that a Board decision to pay profits is not considered to create a legal obligation.

This will result in profits being reported within the financial statements of subsidiaries, however, no tax charge need be included as there is a full expectation that no tax will be payable.

It is important that this change is considered well in advance of your year-end to ensure that you are clear about the accounting implications and ensure that any stakeholders understand these changes. As this is a change in accounting standard, this is also likely to require a prior year adjustment in the financial statements.

3. Depreciating assets comprising of two or more major components

The latest update requires that where a charity holds an asset comprising of two or more major components, these components must be depreciated over their separate useful economic lives. This may result in a different depreciation charge than would otherwise be the case.

4. Investment property

Charities SORP FRS 102 has been amended to introduce an accounting policy choice. The update allows charities that rent investment properties to other group entities to measure those at either cost (less depreciation and impairment) or fair value, with any gain or loss taken through the Statement of Financial Activities (SoFA).

When only part of the property is rented to another group entity, the above applies only to the component of that property that is rented to another group entity.

The undue cost of effort exemption for measuring the investment property component of a mixed use property at fair value has been removed. Additional guidance has been provided on when the different components of the property should be separated.

If you choose to use the cost model, additional disclosures will be required to state the carrying amount at the end of the reporting period of investment property rented to another group entity.

5. Net debt note for the Statement of Cash Flows

A note is now required to complement the Statement of Cash Flows which analyses the movements in net debt during the reporting period. Net debt consists of the borrowings of a charity, any related derivatives, and obligations under finance leases, less any cash and cash equivalents. An analysis of the cashflow statement comparative movements will not be required to be disclosed. Charities SORP FRS 102 provides examples of how this may be set out in Table 10A.

The challenges of trustee recruitment

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The lack of diversity on boards comes as a consequence of the way in which charities tend to recruit their Trustees.

Trustee recruitment represents a significant challenge for many charities, as we hear regularly from our clients. Research carried out in 2017 by Getting On Board – a charity that promotes and supports board level recruitment - found that 74% of charities reported difficulties in recruiting trustees. In addition to the struggle to recruit, however, is the issue of ensuring the board composition reflects the communities and people that the charity serves.

At a broader level, the issue of trustee recruitment is increasingly being seen as a threat to the vitality and success of the charity sector itself.

Lack of diversity

The lack of diversity on boards comes as a consequence of the way in which charities tend to recruit their Trustees. This was highlighted in the Charity Commission's 'Taken on Trust' report of 2017, which identified that men outnumber women on boards by two to one (a ratio also reflected in the occupants of the role of chair and treasurer) and that more than 90% of trustees are white, older, and with above average income and education levels. The report also found that charity trustees reported a lack of relevant legal, digital, fundraising, marketing and campaigning skills at board level.

These issues were reflected in the latest update of the Charity Governance Code, with the recommendation that board effectiveness is promoted by way of "…a formal, rigorous and transparent procedure to appoint new trustees to the board, which includes advertising vacancies widely," and that, "the search for new trustees is carried out, and appointments or nominations for election are made, on merit, against objective criteria and considering the benefits of diversity."

However, this is not simply a box ticking compliance matter. Charities who proactively engage with issues around trustee recruitment, and the way in which the trustee board works, may be able to attract and draw upon a wider pool of potential trustees, and bring a range of new skills, knowledge and experience into the organisation.

We have set out some practical tips and advice below that your organisation may wish to explore to improve trustee recruitment:

Review of roles

- We recommend that the board regularly reviews the skills and experiences (including those of equality and diversity) that it collectively possesses, and a skills register is a very useful way of structuring and formalising this process. To work most effectively, this should be mapped to the overarching strategy and objectives of the organisation. This helps to identify the types of individual that the charity may want to attract to the board, and also suggest training requirements for current trustees.
- Trustees, both current and potential, should have a clear understanding of their role and responsibilities within the organisation, including the expected time commitment for the position. This will obviously vary significantly from charity to charity, but again we suggest that this is documented and regularly reviewed by the trustee board.

Attracting potential trustees

- The role of the trustee is a serious one and should not be taken on lightly. There may, however, be various concerns holding back potential trustees – be it risk of personal liability, or level of time commitment - which the charity is able to address. Good communication, and clarity in setting out exactly what the role of the trustee involves, will be key.
- Charities should also be able to emphasise the many positive aspects of trusteeship: be it the satisfaction of contributing to a worthwhile cause; the new skills and experiences which trustees will be able to develop; or working as part of a team with people from different backgrounds for a common purpose.
- Consider when and where the charity board meetings are held, and whether this might be effectively excluding potential candidates. For example, evening meetings might suit younger or working people. Similarly, it may be beneficial to review how trustee meetings are chaired and structured in order to help integrate new and less experienced trustees.
- The charity should offer appropriate training and induction for new trustees. First-time trustees may benefit from additional support, such as mentoring from a more experienced member of the board.
- The Charity Commission has an annual 'Trustees' Week' – which runs from 4 to 8 November in 2019. This provides a showcase for the important work that trustees do, and promotes opportunities for people from all walks of life to get involved. Charities are encouraged to use the publicity and resources from the week to support their own trustee recruitment.

Recruitment

- Look beyond internal networks. The 'Taken on Trust' report confirms that most trustees, even within larger charities, tend to be recruited informally from within the trustees' existing networks. There is therefore a real opportunity for those charities to expand their recruitment efforts to a wider field of potential trustees. This can include through advertising and social media, or promoting trustee involvement to users of the charity's services. There are also a number of organisations that provide recruitment support to charities (see 'Further support and resources' below).
- Ensure that the selection process is transparent and objective, with candidates assessed against agreed criteria. Candidates should also be made aware of the vetting procedures which the charity will be required to carry out prior to appointment - in relation to disqualification, conflicts of interest and potentially DBS checks - so any potential issues can be identified and addressed at an early stage of the process.

Further support and resources

There are numerous resources available to help charities review and improve their trustee recruitment process. Excellent guidance is provided by the Charity Commission, which has recently updated its 'Finding new trustees: what charities need to know (CC30)' to reflect the developments discussed above, as well as the new disqualification rules for trustees outlined in the previous edition of our Charity Sector Outlook, which can be downloaded from our website (include link).

The National Council for Voluntary Organisations (NCVO) provides guidance, including model role descriptions for Trustees, as well as operating Trustee Bank - a database of trustee vacancies. Other options for advertising and identifying potential trustees are provided by organisations including Do-It.Org, the Small Charities Coalition and Reach Volunteering.

Your UHY charity contact will of course also always be available to offer advice and share our experiences of Trustee recruitment across the sector.

Our national expertise and experience

We have decades of experience supporting clients in the sector and currently advise over 300 charity and NFP clients across the UK, from local charities of varying sizes to major national organisations, including three of the top ten grant giving foundations.

Our charity sector experience

The provision of professional services to the charity and not-for-profit (NFP) sector is one of the core areas we have built our business around and we are committed to the sharing of best practice and knowledge for the benefit of our clients.

We recognise that while your primary focus will be on those who benefit from your services, you have to manage tightly controlled finances that are then transparently reported in the public domain.

With increased competition for grant funding and charitable giving, a greater emphasis on making your accounts more accessible, and an increased burden on compliance, your charity needs to be managed better than ever.

We advise over 300 charity and NFP clients across the UK, from local charities of varying sizes to major national organisations. The long-term relationships we have developed with our charity clients enable us to understand the challenges faced and to offer advice based upon real understanding and experience.

We understand the need for a robust process that can demonstrate clearly good governance arrangements to stakeholders. Our decades of experience ranges from assisting with audits for grant and funding applications, advising on annual Charity Commission submissions, helping charities take advantage of the various VAT concessions available, to assisting with setting up a charity and obtaining charitable status.

Keeping you informed

In order to co-ordinate our service provision and capture best practice, we maintain a national charity and NFP group. The group comprises our specialists from across our UK offices who meet regularly to discuss changes in the financial and regulatory areas affecting the sector.

We are committed to ensuring that these changes are communicated to our clients; regularly producing updates, briefings and blog posts on topical issues and recent developments within the sector. Visit our dedicated charity microsite for further information:
www.uhy-uk.com/charities

Providing a comprehensive range of services

Our approach is to provide comprehensive charity audit and accounting services which help you maintain a financially sound organisation, allowing you to focus on meeting the core objectives of your charity. The range of services we provide to the sector includes:

Audit and assurance
- External audit
- Independent examinations
- DFID grant assurance

Tax planning and compliance
- VAT 'health check' and advice
- PAYE and NIC advice
- Corporation tax
- Trust advice

Management services
- Budgeting
- Cashflow projections
- Management reporting
- Payroll
- Bookkeeping
- Accounts preparation
- Compliance with public benefit requirements
- Managing financial difficulties

Financial reporting
- Advice on governance issues
- Compliance with Charities Act and SORP

Fundraising/trading
- Gift Aid and deeds of covenant
- Formation of limited companies for trading purposes
- Setting up branches

Other advice
- Strategic planning
- Lottery applications
- Risk assessment
- Dealing with the Charity Commission

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Follow our dedicated charity and not-for-profit blog

Our charity and not-for-profit blog covers the latest issues that may affect your charity. From our take on new Charity Commission announcements to VAT advice, our blog will keep you up-to-date with everything you need to know.

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