UHY Hacker Young
Chartered Accountants

Charity and NFP Sector Outlook

2024/25

Our insights on the key issues impacting the charity and NFP sector

Helping you prosper

Welcome to our eighth annual edition of our Charity and Not-for-Profit Outlook.

Contents

04	Editor's welcome	View →
06	The importance of sustainability and ESG in the charity sector	View →
08	Ask not what you can do for your charity, but what your charity can do for you	View →
10	The AI gamechanger	View →
12	Cultural tax reliefs	View →
14	Charity fundraising and the VAT impact	View →
16	The Charities Act 2022: March 2024 update	View →
18	Utilising going concern information as a management tool to benefit your charity	View →
22	Top tips to strengthen financial resilience	View →
24	Time to embrace digital accounting?	View →
26	Spring Budget 2024: what the announcement means for the charity and not-for-profit sector	View →
28	In the spotlight: Teenage Cancer Trust	View →
32	Our sector expertise	View →

Editor's welcome

Welcome to our 2024/25 edition of our Charity and Not-for-Profit Outlook.

Our team have once again pooled their insights and opinions into our eighth consecutive Charity and NFP Sector Outlook, to bring you the salient issues relevant to the sector at this time. It is sharing our knowledge with you, our clients, that makes our job so enjoyable so I hope you find our most recent Outlook interesting and thought provoking.

With that in mind, I'm thrilled that in the last Charity Finance Audit Survey, published in December 2023, UHY were ranked in the Top 3 audit firms for both Overall Service and Charity Expertise (10-30 responses). Thank you to all of our clients who submitted their responses to the survey!

As ever, much is happening within the charity and not-for profit sector. The sector has continued to evolve, with charities embracing Environmental, Social and Governance (ESG) policies as integral components of their day-to-day operations. There is also a growing openness to exploring the evolving world of Artificial Intelligence (AI) and the opportunities it presents in terms of delivering charitable activities and interacting with stakeholders.

My colleague, Georgina Daly, considers 'The AI Gamechanger' on page 10, shining a spotlight on how charities are using AI, as well as highlighting some of the potential pitfalls of becoming overly complacent about the technology.

Choosing to practice what we preach, we have been focusing on our own ESG policies recently and my colleagues from around the UHY Group have been considering policies at local office level. Based on our knowledge and current experience, one of our London partners, Harriet Hodgson-Grove, provides her insight on what makes a good ESG policy and what charities should be considering as part of their implementation on page 6.

The phrase 'People are our most valuable asset' is often attributed to management and leadership philosophy. I know that's certainly true for us here at UHY, and charities are no different. Whether it be a paid position, or time given generously for free by many of the volunteers who are such a powerhouse for the sector. On page 8, Nottingham partner, Dave Allum, considers how to attract and retain people to different roles within charities, whether they be remunerated or voluntary.

With most charities receiving income from a range of sources, navigating the intricacies of VAT accounting can be complex. While charities benefit from a number of special rules, the absence of general relief schemes in respect of either income or VAT recovery poses challenges. London VAT partner, Sean Glancy, explores the complexities charities can face in determining the VAT treatment of income on page 14.

Cultural tax reliefs are another area of tax that have become a key component of financial planning for many arts organisations embarking on a new production. However, the process can be challenging, particularly for collaborative work, where careful project structuring may be needed to maximise the potential for the claim. Gareth Burrow, senior manager from our York office, explores cultural tax reliefs and some of the changes to the system on page 12.

The phased implementation approach of the Charities Act 2022 has also continued following its Royal Assent on 24 February 2022. Having last provided an overview of the changes proposed in our 2022/23 Charity Outlook, we asked Caroline Armitage, Head of Charities at Girlings Solicitors, to provide an update on the Act following the latest tranche of provisions, which came into force on 7 March 2024. Turn to page 16 to read Caroline's update on the key amendments and provisions.

March 2024 also saw Chancellor of the Exchequer, Jeremey Hunt, unveil his Spring Budget to Parliament. While there were some positive takeaways for the charity and not-for-profit sector, it regrettably fell short of addressing many of the vital challenges charities and their beneficiaries face that require immediate support and resolution. London partner, Colin Wright, shares his review of the announcement and what the measures mean for the charity and not-for-profit sector on page 26.

Of course, now more than ever, financial resilience is of paramount importance to every charity. Without it there would be no need for any of the aforementioned ESG policies or consideration of AI. I look at how charities can turn the information they produce for their auditor as part of their work on going concern into a useful management tool on page 18, and we also provide a recap on our top 10 tips to provide financial resilience.

Continuing on the theme of financial processes, efficiency improvements are key in an environment of ever-increasing costs, and digital accounting tools can offer your charity cost-effective ways to improve the efficiency of your financial systems. Head of cloud at UHY, Rebecca Roberts, considers some of the key benefits of digital accounting on page 24.

Finally, we were thrilled to catch up with our 2023/24 National Charity partner, Teenage Cancer Trust, earlier in the year. We sat down with their Deputy Director of Fundraising, Hannah Sheehy, to delve into the heart of the charity, discussing the impact Teenage Cancer Trust has on young people facing cancer, the wider charity sector as a whole and so much more. Turn to page 26 to read Hannah's thoughts about some of the biggest challenges facing the sector at present.

We hope this edition of our Charity and NFP Outlook provides a valuable insight into the sector and prompts meaningful reflection. As ever, we are here to help. Please do contact any of our team if we can be of assistance. Contact details for all members of our Charity and Not-for-Profit team can be found on page 32.

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The importance of sustainability and ESG in the charity sector

The Cambridge Dictionary defines sustainability as the "quality of being able to continue over a period of time". It is the focus on meeting the needs of the present without compromising the ability of future generations to meet theirs. For a charity, the emphasis is on the charity's ability to serve its beneficiaries over the long term, whilst adhering to their charitable objectives.

Environmental Social Governance (ESG) is a measure of sustainability. It is a framework that looks beyond financial data to consider the impact of a charity on the environment, the important work being carried out to benefit communities and society and the transparent and accountable nature of its governance.

'Environment' is perhaps the easiest of the three points to measure. It includes the impact of energy use, waste production and management, carbon emissions and developing an understanding of how severe weather and other climate related risks could impact your organisation and their supply chain.

'Social' refers to the relationships within your organisation and the wider stakeholders of the charity. It's how the charity considers and interacts with employees, volunteers, donors, investors and the wider community. It includes consideration of the needs of beneficiaries, employee wellbeing, human rights, and equity, diversity and inclusion (EDI).

'Governance' focuses on the way that the charity conducts itself, the internal systems and controls in place to ensure that the charity can operate effectively within the bounds of its charitable objectives and charity law to meet the needs of its stakeholders. It can include ethical investment practices, board diversity and interaction with regulators, with an overall emphasis on transparency.

The process of developing an effective ESG strategy for your charity is important to understand where the charity is now and how it can continue to meet its charitable objectives in the future.

Some key advantages to having a clear ESG strategy include:

- **Attracting donations and funding** – donors are becoming increasingly conscious of their own impact on the environment and want to ensure that the charities they support are behaving responsibly. Charities that can demonstrate that they are sustainable in the long term and are thinking about their impact on the environment and wider society will potentially attract more funding.
- **Employees and volunteers** – employees and volunteers are now much more aware of the importance of working for a sustainable organisation. They are seeking roles where the organisation has a strong commitment to social and environmental responsibility. Having a well-defined ESG strategy can attract and retain top talent. In addition, employees are likely to feel more connected and therefore loyal to a socially responsible organisation.
- **Risk management** – investing time in developing an ESG strategy can highlight any risks associated with environmental and social issues, as well as governance challenges. These can then be dealt with early and can protect the charity from negative impacts on its operations and reputation.
- **New opportunities** – some organisations now require those they work with to provide their plans to address and meet net zero targets. More and more companies are starting to think about this and may fall into the scope of climate reporting regulations. Being able to provide clear strategic goals in relation to your ESG strategy may mean new opportunities to work with other organisations.

Where to start

- **Understand your charity** – go back to basics, begin by re-reading your charitable objectives, mission and vision. Look at your charity's values, operations and identify your key stakeholders.
- **Stakeholder engagement** – engage with your key stakeholders, including donors, volunteers, employees and the local community. Seek to understand their expectations of your charity, any concerns they may have and their priorities when it comes to ESG issues. Input from stakeholders is crucial to develop a strategy that aligns with the values and needs of the community. You could do in-person round table sessions, informal feedback surveys or even just a call with key stakeholders to find out what is important to them.
- **Learn from others** - for the charity sector, not all ESG reporting is mandatory. However, charities need to consider both the legal requirements in terms of their reporting and what their stakeholders would want to know in order to determine what they include in their annual report. Larger charities are starting to publish their ESG policies and statements on their website and include an ESG section in their annual report. A word of warning, however, that whilst this is a good place to start to generate ideas, remember that an ESG strategy is unique to each individual organisation.

The next steps

Once you know what sustainability means to your charity and your stakeholders, you can start to measure where you are in relation to the main areas your organisation should focus on and the roadmap for how to get there by using an ESG framework. There are multiple frameworks available. Find one that works best for your charity. A couple of examples include the UN Sustainability Development Goals and the Charity Governance Code.

Set ESG goals and objectives that are specific, measurable, achievable, realistic and time-bound ('SMART objectives'). These can form part of your overall short-term and long-term strategy as not all the aims of an ESG strategy will be 'quick fixes', they will take time to implement, monitor and achieve. It is important to identify key milestones and check on the progress regularly.

Create a roadmap which details how you will meet your ESG objectives. Consider who will 'own' each ESG project and who will have ultimate responsibility for the ESG strategy in your charity. You may identify tools or services external to your charity, think about the investment that will be needed for this and include it in the overall roadmap.

Once you have developed an ESG strategy, start to report your policies and achievements to your stakeholders so they can see what you have achieved so far and all the work you are doing to ensure your charity is making a positive environmental and social impact. Ensure that you regularly review your progress and the overall strategy to ensure it is still appropriate and update your stakeholders as it evolves.

By investing in ESG now, you can increase the sustainability of your fundraising pipelines, attract and retain key staff and volunteers and demonstrate your charity has the ability to serve its beneficiaries in the long term.

Quick wins to think about when developing your ESG strategy:

Environment	Social	Governance
Review your energy provider and switch to a renewable provider to reduce your carbon emissions.	Review how you manage your data security & confidential data to make sure you are protecting the data of your service users and supporters.	Ensure policies are reviewed regularly and shared with employees and volunteers.
Review your waste arrangements to see if you can improve your recycling/ diversion of waste from landfill.	Review and take steps to improve your gender and ethnicity pay gaps.	Consider safeguarding arrangements for employees and volunteers.

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Ask not what you can do for your charity, but what your charity can do for you

In the annals of American history, few figures shine as brightly as John F. Kennedy, perhaps the country's most celebrated president in both life and death, who once famously said: "Ask not what your country can do for you, but what you can do for your country". His call for civic duty has become iconic and is a celebrated reminder of how we all have an active role to play in bettering society and the lives of others.

In some ways, the concept of 'charity' in the UK has echoed the mantra of Kennedy's famous quote, with many charitable organisations happily accepting support and participation from others, often on a pro-bono basis, without necessarily giving anything in return. But as we enter a new era for the sector, with the ongoing cost-of-living crisis and other issues dominating society, we understand that we all have a role to play in making a difference for others and should adopt the mantra: "Ask not what you can do for your charity, but what your charity can do for you".

If you were to ask a charity leader about the current challenges they face, it is unlikely any would say they have enough people onboard to deliver their services. Whether it is as a paid employee or somebody voluntarily offering their time, from supporting fundraising efforts to offering leadership and governance support as a trustee, the ongoing demand for manpower is at an all-time high. While many charities outline meticulous job descriptions detailing the requirements and expectations they place on potential recruits, what, if anything, is offered in return?

Attracting and retaining talent

The onboarding process of bringing individuals into a charity, whether paid or voluntary, has evolved tremendously in recent years. It must now be undertaken through a similar approach to commercial organisations. In today's society, work is now rightly seen as something more than a monthly salary; it's about establishing a sense of belonging and fostering an inclusive and accepting environment where values and behaviours build culture, and personal development and growth are encouraged. In essence, it's about providing more than just a means to an end. So, the big question is, how does a charity attract and retain talent?

Perhaps the first and most vital way to set your charity apart is to establish a well-thought-out and considered mission and set of values. When considering this, ask yourself, what makes us so special? What are the reasons a person should choose to work with us over another charity? Your responses to these questions will help form your uniqueness and appeal.

Begin by reviewing the values upheld by the charity and the behaviours you promote and expect of your people. Whether these are formally documented or not, it is integral that you place your values at the heart of everything the charity does. Once you have identified the core values, take a deep dive into why these values are important to your people. After all, it is your people who will live, breathe and demonstrate your values daily. Consider whether they are a true reflection and whether they align with your goals, and ensure they are effectively communicated to both existing and prospective people.

Additionally, the culture born from these values must be considered. Likely components include a supportive environment where people can develop and enhance skills, ongoing open communication where ideas can be shared without criticism and a real sense of inclusivity and appreciation. Does your charity embody this culture? To fully answer this, you'll need to be reflective and wholly transparent with yourself first and foremost.

Another action that might encourage people to join a charity is the creation of certainty by setting fixed periods of acting in voluntary roles. For some people, there is a fear that they may be unable to leave an organisation if circumstances change, or if they feel they don't add value anymore. This can, and often does, put people off from volunteering. After all, most people would be wary of committing to something that may tie them in for an unspecified amount of time and may even become a longer term expectancy than initially anticipated. By limiting tenures to three years, for example, but allowing extensions to be approved by consent, people may feel more empowered to join an organisation knowing that they can leave to either take a break from volunteering or join another organisation to further develop their skills and enjoy a range of new opportunities.

It is also vital to consider the many changes that have happened to the ways we work over recent years. Pre-covid pandemic, most organisations were 9 to 5 and fairly inflexible. Post pandemic, there is more flexibility, which has helped to attract and retain the best people – working arrangements for one person may be unworkable for another, and organisations are finally realising this. If you are asking for voluntary support, it's probably not a good idea to give set hours, but to allow for flexibility for the role. This is also important for any paid roles where competition for key roles is likely to be high. A key part of this flexibility might be around remote versus in-person work. It is generally agreed that both approaches have pros and cons, such as collaboration and supportive working versus spending time wasted on commutes. The world seems more accepting of a hybrid approach and this is one lasting and positive change born from the pandemic.

Show your appreciation

Whether in paid or voluntary roles, people long to feel appreciated and valued, knowing the work they do is making a real difference and helping others. While appraisals are common practice in the commercial sector, they are not always standard practice in the charity sector. However, times are changing for the better, and it is becoming increasingly apparent how important appraisals are for futureproofing the success and growth of a charity. Why are they so important? Done well, they are much more than a performance review; they offer individuals on both sides a chance to provide feedback and express their thanks and appreciation for all the services delivered to date. This is equally important for both paid and voluntary roles. Appraisals also present a valuable opportunity to establish learning and development plans, enabling new skills to be learned – something that the modern work force value tremendously.

Finally, one key point that can help a charity stand out amongst the crowd is the emphasis and importance it places on wellbeing. In the past, both paid and unpaid roles may not have fully considered the impact of personal wellbeing and, additionally, may not have had clear policies and support available and in place. The world has moved on tremendously in the last few years and people's needs and expectations have changed. Nowadays, most organisations are great at recognising the wellbeing needs of their paid people, but are perhaps not so good when it comes to volunteers. The needs of people don't change just because there is a willingness to turn up and help out for free – it is our duty to make sure that we support volunteer workers in exactly the same way.

It's much harder to attract people at all levels into a charity and the competition for people is harder than ever too. When trying to attract and retain people, charity leaders should always ask one vital question; what has my charity done for you lately? The response to this question is the beginning of everything for your charity.

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The AI gamechanger

In an era defined by technological advancement, artificial intelligence (AI) stands out as a transformative force with the potential to revolutionise the way we do things. While AI's applications in fields like healthcare, finance and retail are well-documented, most in the charity sector have only begun to scratch the surface of its possibilities.

Yet many experts believe charities stand to reap significant benefits from the implementation of AI over time. There are already several systems that can drive efficiencies and streamline operations through automation, freeing your teams to focus on more strategic tasks. Also entering the market at a rapid pace are systems seeking to improve engagement with donors and beneficiaries, potentially leading to deeper connections and increased support for charitable initiatives.

The emerging world of AI can seem a daunting one for many of us as it continues to evolve and its impact can still not be fully measured. Will AI transform the charitable landscape? Yes, it holds promise for innovation and progress, but only when used correctly. In this article, we consider some of the ways AI tools can benefit the sector and outline steps you can take to harness its power effectively.

Unlocking the power of AI for charities

According to the July 2023 Charity Skills Report, most charities (78%) agree that AI is relevant to their charity and could transform it, yet 73% say they don't feel prepared to respond to the opportunities and challenges it brings.

The good news is that you do not need to be a technology expert to harness some of the AI capabilities already out there. For example, OpenAI chatbots like ChatGPT and Bing Chat can easily be used to generate copy or media content, help with grant applications, or digest and summarise reports.

A word of warning, however, that ChatGPT can make mistakes. The data pool of the free version, ChatGPT 3.5, currently only extends until January 2022. However, as we go to press, OpenAI's ChatGPT-4o is in the process of being launched, with promises that many of the features previously reserved for paying customers will become accessible to all users, resulting in improved capabilities across text, vision and audio. While the capabilities of AI are undoubtedly moving forward at lightning speed, it is important to always fact check important information and remember that your outputs will only ever be as good as the information you put in. If you feed the chatbot with clear and concise information and the right prompts, created specifically for your charity's requirements, you are much more likely to get the results you desire. You may be thinking, how do you create the right prompts? Your prompt should specify details of the output you want to generate and how it should be generated, including the tone, length, style and structure, as well as any research that needs to be conducted. Like everything in life, practice makes perfect.

Anyone in the sector will know that creating quality grant applications can be hugely time consuming, so using OpenAI chatbots to streamline and speed up the process is very appealing. However, while AI can do a great job of responding to questions and producing clear responses, we cannot see it replacing grant writers any time soon. AI simply won't have the same insight as someone from within your charity. Outputs require editing and refinement to ensure any content created aligns with your charity's tone of voice, as well as complying with legal and ethical standards and respecting copyrights. Essentially, AI is not something we can wholly rely on, instead, it is something we must use as a collaborative tool to work in unison with our people.

Of course, AI capabilities go much further than the likes of ChatGPT. From managing relationships with donors and beneficiaries to optimising fundraising efforts or even streamlining project management with AI-driven tools, the possibilities are vast.

AI can process large datasets far more efficiently than humans and these capabilities can be used to uncover hidden insights, identify patterns, track impact and forecast future outcomes. The speed at which AI can integrate huge amounts of data and generate predictive modelling can help you quickly understand donor behaviour, optimise fundraising campaigns or simply allocate resources more effectively. For example, AI algorithms can segment donors based on their interests and past contributions, therefore enabling you to send more targeted appeals and cultivate stronger relationships.

Developments in AI are also enabling more personalised communication with donors and beneficiaries. AI can answer queries, provide information and engage users 24/7 and, as the technology rapidly evolves, advanced AI tools are even being trained to perform tasks core to a charity's mission. UNICEF, for example, has utilised AI to create a chatbot called U-Report, which gives young people in East Asia and the Pacific access to information on issues they care about. Mencap has an 'understand me' chatbot on their website, which guides people through a conversation with Aeren, who shares information about her life with a learning disability as well as providing statistics on learning disabilities in the UK. Macmillan Cancer Support also recently announced a £350,000 investment into AI powered software designed to help expedite the diagnosis of prostate cancer.

Developments in AI have the potential to revolutionise the way we do things across the sector. From executing fundraising campaigns with greater precision and efficiency to deploying social assistants and robots for various tasks such as supporter care or team inductions, the technological capabilities are mind blowing.

A few practical steps towards embracing AI

Start small - many AI tools are accessible and affordable. We would recommend beginning with pilot projects, such as using chatbots or sentiment analysis for social media. Test and iterate before scaling up.

Understand your data and use it lawfully - clean, structured data is essential for effective AI implementation so, before diving into AI, you must assess your existing data. What information do you collect? How is it stored? It is essential you consider transparency, ethical implications and bias (more on this below). We recommend seeking specialist advice to ensure you are using AI lawfully and then developing internal guidelines for responsible AI use. As a starting point, the ICO report, How to use AI and personal data, outlines the key steps you can take to deploy AI appropriately and lawfully.

Collaborate - the charity sector is full of examples of successful collaborations which lead to shared knowledge, resources and cost-effective solutions. Could you partner with tech experts, universities or other non-profits to make the most of AI?

Invest in specialist support and training - consider engaging with an AI expert who can help you make the most of opportunities. Invest in training programmes to build internal capacity and demystify AI concepts. Also keep in mind that any AI tool needs to be trained in 'your way'; for example, in your tone of voice or any specific biases you are looking to avoid.

No pain, no gain – navigating the challenges

Despite the benefits, there are concerns surrounding the implementation of AI, particularly around algorithmic bias and the ethical implications of AI-driven decision-making. It is a complex subject but, fundamentally, AI systems can be opaque in their operations and the technology can potentially replicate the preconceptions and biases of its designers. The data itself may also contain bias if the technology has been trained on data sets which favour particular characteristics.

For example, issues with natural language processing algorithms, the branch of AI that helps computers understand and interpret human language, have been found to demonstrate racial, gender and disability bias. There was a well-publicised example in 2018 when Amazon stopped using a hiring algorithm after finding it favoured applicants based on words like "executed" or "captured," which were more commonly found on men's CVs, and it penalised CVs that included the word "women's", such as "women's chess club captain".

A 2020 study from Stanford University also identified significant racial disparities in speech recognition systems from five of the world's biggest tech companies, with systems misidentifying white people's words about 19% of the time but, for black people, this figure jumped to 35%.

There are many more examples in the press, although thankfully not in the charity sector as far as we are aware. Nonetheless, in light of the public trust held by charities, it is imperative you consider the ethical challenges AI could present and seek to understand how any tools you use will arrive at their conclusion. Essentially, AI systems are only as unbiased as the data they are trained on, so if the data is biased, the AI will be too.

The future of AI

Contrasting with the EU's more cautious regulatory stance, the UK government's AI white paper, published in March 2023, sets out initial proposals to develop a pro-innovation regulatory framework for AI. The proposed framework outlined five cross-sectoral principles for the UK's existing regulators to interpret and apply within their remits, emphasising a light-touch approach to regulation to avoid stifling innovation.

Most experts agree that, by the end of 2024, the AI tools available are likely to have increased in sophistication, fundamentally changing how business gets done.
The prospect of AI may seem daunting, but it holds immense promise for charities, offering opportunities to enhance efficiency, deepen impact and ultimately serve beneficiaries better.

If you are just starting to explore the potential of AI, ensure you develop a clear strategy about how it will help you deliver on your purpose. As AI continues to evolve, stay informed about best practices and guidelines. Realising the benefits of AI requires careful navigation of the challenges and we would recommend seeking advice from an AI specialist if you are looking to build momentum quickly, to ensure your strategies are ethical and aligned with your charitable objects.

Through thoughtful integration and responsible use, AI has the potential to revolutionise the sector and drive positive change for your charity and the beneficiaries you serve.

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Cultural tax reliefs

Since their initial introduction for film productions in 2009, the expansion of creative and cultural tax reliefs has developed to represent a significant element of the funding mix for many arts and cultural organisations.

For charities and not-for-profits in particular, the opportunity to surrender losses for a repayable tax credit – even where the production or exhibition would be ordinarily exempt from tax – represents a very welcome further source of income in a hard-pressed sector.

Recognising the importance of the reliefs and the challenges facing arts and cultural organisations as the country emerged from the pandemic, the government announced a temporary increase to the rates of the tax credits in the 2021 Autumn Statement. This saw the reliefs broadly doubled from their original levels. Despite initially being due to taper back down from 1 April 2023, the increase was further extended to 2025 and then a permanent increase to the rates was announced beyond this in the recent Spring Budget 2024.

Though the full scope of the creative tax reliefs extends wider, encompassing sectors including film, television and video games, for charities, it is the three cultural reliefs - Theatre Tax Relief (TTR), Orchestra Tax Relief (OTR) and Museums and Galleries Exhibition Tax Relief (MGETR) - that are the most relevant. It is these reliefs that have seen the increased rates from 2021.

Whilst each relief has specific qualifying conditions and features, they all offer an enhanced deduction that can be claimed in respect of costs incurred between a project being initiated and its opening, as well as costs involved in closing the production after the final performance. Eligible expenditure excludes non-production activities, ordinary running costs and marketing. As of 1 April 2024, the reliefs only apply to UK expenditure (previously expenditure in the EEA). The enhanced deduction applies to 80% of the total qualifying core expenditure.

Making a claim

Claims should be included on your Corporation Tax return, specifically relating to a qualifying production or exhibition. They must be reported on cumulatively where the production spans more than one accounting period.

If the project is loss-making after the enhanced deduction, the loss can be surrendered for a tax credit equal to a percentage of the losses surrendered. For the MGETR only, there is a cap on the value of the tax credit that can be received, set at £80,000 for each non-touring exhibition and £100,000 for touring exhibitions.

The current and future rates, as announced at Spring Budget 2024, at which losses can be surrendered for a payable tax credit are set out in the table below.

Relief and % rate of tax credit	Current (enhanced) rates	Permanent increase from 1 April 2025
Theatre Tax Relief (Touring/Non-Touring)	45 / 50	40 / 45
Orchestra Tax Relief	50	45
Museums and Galleries Exhibition Tax Relief (Touring/ Non-Touring)	45 / 50	40 / 35

Changes to claim system

On 1 April 2024, the method of claiming cultural tax reliefs changed. Like the new system for R&D tax relief claims, HMRC now requires an online form to be submitted, providing the relevant supporting details of the production and claim. This must be done in advance of the actual tax relief claim on the Corporation Tax return. If the form is not submitted, or does not provide the required details, HMRC will amend the return to exclude the claim.

Though many organisations will already have included the supporting information with their tax computations in the past, this is now required in a specific format as prescribed by HMRC. A separate form will be required for every production, exhibition or concert, therefore potentially increasing the administrative burden of submitting a claim. However, HMRC claim the changes should allow them to process valid claims more quickly.

Technical clarifications

The government also announced various technical clarifications on the rules for claims, alongside the extension of the higher rates in 2023, addressing those costs specifically excluded, and the detailed qualifying conditions for theatrical productions and exhibitions.

Other considerations

Cultural tax reliefs have become a key component of financial planning for many arts organisations ahead of embarking on a new production. However, the process can be challenging, particularly for collaborative work, where careful project structuring may be needed to maximise the potential for the claim. Having a lead organisation that can satisfy the necessary qualifying conditions is important in these scenarios. There may also be implications in terms of the VAT position of a production which need to be considered.

It is important to have financial systems in place which capture the relevant information to be included in the claim.

Please contact your usual UHY adviser or one of the sector experts listed on page 33 of the Outlook if you would like to further assistance on planning and identifying opportunities to maximise your organisation's cultural tax relief claims.

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On 1 April 2024, the method of claiming cultural tax reliefs changed. Like the new system for R&D tax relief claims, HMRC now requires an online form to be submitted.

Charity fundraising and the VAT impact

Charities normally receive income from a range of sources, including donations, lottery funding, grants, sponsorship, legacies, sponsored fundraising and events, the sale of goods and services, etc. The list is almost endless, creating a complex picture in respect of VAT accounting. While charities benefit from a number of special rules, the absence of general relief schemes in respect of either income or VAT recovery poses challenges.

This article considers the complexities charities can face in determining the VAT treatment of income. This is normally the starting point in respect of VAT accounting. There is an obligation to account for VAT on relevant income, and a right to deduct (recover) VAT if the correct criteria are met. As VAT recovery is normally determined by reference to the activities undertaken, we are focusing on obligations in this article.

While our primary focus is on VAT registered charities, the treatment of the income described could determine whether a VAT registration obligation is being created. Therefore, we recommend both VAT registered charities and those not registered review this article.

The starting point

If a charity does something in return for money, this is likely to be within the scope of VAT.

This follows the decision in the case of Longridge on the Thames and the Revenue and Customs Brief 10 (2022): 'VAT — business and non-business activities' which announced a change of policy for determining whether an activity is, or is not, a 'business' activity for VAT purposes, removing the long established case laws tests. This simplified the business test and effectively widened the application of VAT for charities when considering income generating activities.

If money is freely given, this would be outside the scope of VAT. This would include a simple donation, including a legacy. It also includes grants and lottery funding, both of which may have some stipulations regarding use of the monies provided, but the reality is the funder does not receive anything in return for the funding.

However, complexities arise in grant funding scenarios where a third party receives a direct benefit, as this could be subject to VAT. This underscores the principle that if something is done for a consideration, it is within the scope of VAT. This includes third party consideration.

Different rules apply where there is lottery funding, as this is treated as outside the scope of VAT as a matter of public policy.

Below, we consider some specific types of income and their VAT treatment. Of course, this is not exhaustive, but it is intended to highlight some of the complexities and issues that can arise.

Donations and corporate sponsorship

Donations are outside the scope of VAT, on the basis they are freely given, and nothing is received in return for the monies provided. Sponsorship is different as, normally, something is given in return, making it a corporate benefit. Sponsorship includes, but is not limited to, displaying the corporate sponsor's company logo or trading name and participating in the sponsor's promotional or advertising activities.

Determining whether a sponsorship constitutes consideration entailing money or money's worth returns (this includes a barter) – requires scrutiny. Is there something being provided in return for the monies (or goods and services) provided? This is normally established by reference to the agreement between the parties.

Corporate sponsorship can have an advantage from a VAT perspective where the sponsor is a corporate body. For example, a corporate body like a legal firm will most likely be able to make full VAT recovery of the VAT that is charged by the charity. This, in turn, would increase VAT recovery for the charity.

Mixed sponsorship and donation

You can have a situation where both sponsorship and donations are taking place with the same benefactor. The donation element can be ring-fenced and treated as outside the scope of VAT. The different elements need to be documented, and the donation not dependant on any action or event.

> **"Corporate sponsorship can have an advantage from a VAT perspective where the sponsor is a corporate body."**

Fundraising events

HMRC allow an event clearly organised and promoted primarily to raise money for the benefit of a charity or qualifying body to be treated as exempt from VAT.

The following criteria apply:

1. Those attending or participating in the event must be aware of its primary fundraising purpose
2. An event is an 'incident' – ie. not an ongoing income generating activity

The relief is not intended to exempt normal trading activities from VAT. It solely relates to fundraising events.

HMRC guidance includes a list of events that may qualify for fundraising purposes, including a ball, dinner dance, disco or barn dance, a showing of a film, a festival… The full list of examples can be read at gov.uk.

HMRC restrict the number of events of the same kind to 15 in any financial year at any one location. The relief applies to a charity, including its trading subsidiary, or qualifying body.

Fundraising – sponsored participation events

Some charities have sponsored events, for example some kind of physical activity, to raise funds. If a charity is organising and promoting the event, it may be able to take advantage of the fundraising exemption explained above.

Where there is a commercially organised sports event and there is a requirement to pay an entry and registration fee or make a minimum contribution, for example a parachute jump, it is likely the charity is making a supply to the participant.

If there are no conditions to participation, the activity is outside the scope of VAT and any funds provided by the participant are also outside the scope of VAT.

It is possible to separate the minimum participation contribution from additional funds raised, resulting in the additional funds being treated as outside the scope of VAT. This must be documented.

Sale of donated goods

It is common practice for charities to raise funds through the sale of donated goods through shops or online marketplaces. The sale of donated goods is normally zero-rated for VAT purposes.

The zero-rated sales count towards the VAT registration threshold, which is currently £90,000. If the registration threshold is exceeded, an exception to registration can be requested. Zero-rating results in VAT recovery of attributable costs where there is a VAT registration in place.

Managing risk

In simple terms, a free gift falls outside the scope of VAT. However, if anything is given in return for the 'gift', it constitutes consideration for a supply for VAT purposes and the VAT consequences must be considered. Any supplies for a consideration, including to 'customers' belonging outside of the UK, should prompt you to consider the VAT position.

The issues discussed are all high level but this article is intended to provide an insight and facilitate VAT risk management and governance considerations.

The increasing need for charities to diversify income generation and meet increased demands within society can, unfortunately, result in tax compliance issues. Given the self-assessment nature of VAT and the severe penalties for errors, exercising reasonable care is imperative for effective tax management.

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The Charities Act 2022: March 2024 update

The Charities Act 2022 received Royal Assent back in February 2022. Making amendments to the Charities Act 2011, the 2022 Act introduces a series of progressive reforms aimed at streamlining and updating the regulatory landscape governing charities in England and Wales. The reforms have been phased in over the last two years, with the latest tranche coming into force on 7 March 2024.

With the changes introduced to save charities time and money by simplifying processes and reducing administrative burdens, we asked Caroline Armitage, Head of Charities at Girlings Solicitors, to provide an overview of the key amendments and provisions.

Current charity landscape

According to the Charity Commission register, as of 14 April 2022 there were 184,053 registered charities with 1,428 employees and 92,7586 trustees. So, there's no denying that it is an influential sector. It's in this context that charity lawyers and advisers have been waiting with some anticipation for the full roll-out of the changes introduced by the Charities Act 2022.

Of that overall total of charities, only approximately 40% are incorporated. This leaves 60% as either unincorporated trusts and associations or special types of charity such as ecclesiastical charities. A lot of those charities will be long established and, of course, many will be small. Those charities have found themselves very often having to seek Charity Commission consent to enable them to operate effectively in today's economic climate, and the rules applying to non-incorporated and incorporated charities have diverged over the years, often to the detriment of the unincorporated organisations.

The main thrust of the most recent changes has been to make the two regimes more closely aligned and also to reduce some of the consent requirements, or make the terms clearer, which is very welcome.

Key amendments and provisions

The first tranche of provisions, which came into force in October 2022, included the following:

- Statutory power for charities to pay trustees for providing both goods and services to the charity in certain circumstances.
- Simplified requirements in the event a fundraising appeal for a specific purpose does not raise enough or raises too much.
- New statutory powers for Royal Charter charities to amend their Royal Charter.

In June 2023, the following provisions came into force:

- Simplified legal requirements in relation to selling, leasing or otherwise disposing of charity land, including widening the category of advisers who can provide charities with advice, which can be a trustee, officer or employee if they meet certain requirements.
- New statutory powers which enable charities to spend from a £25,000 permanent endowment fund or borrow up to 25% of the value of their permanent endowment fund without needing to obtain authority from the Charity Commission.
- Charity Commission powers to direct a charity to stop using a name if it is similar to another charity or is deemed to be offensive or misleading.

> **"The 2022 Act introduces a series of progressive reforms aimed at streamlining and updating the regulatory landscape governing charities in England and Wales."**

The third tranche of Charities Act 2022 reforms finally took effect on 7 March 2024. The provisions include important changes in respect of the rules on governing documents, additional reforms in respect of charity land, the appointment of trustees and how trustees are remunerated, as well as changes regarding charity mergers, summarised as follows:

- New statutory powers for unincorporated associations to make changes to their governing documents and changes to how unincorporated charities must pass trustee and member resolutions when using the new power.
- Amendments to exceptions to restrictions on dispositions or mortgages of charity land and changes to the information that must be included in certain instruments for both charity land disposals and mortgages.
- Powers for the Charity Commissions to ratify an appointment of a trustee where there is uncertainty as to whether they have been appointed or if the appointment or election process was defective.
- Authority to pay charity trustees (or connected persons) for providing services to the charity irrespective of whether there is an express provision in the charity's governing document, and removing the requirements to supply goods in connection with services.
- Enable gifts to a charity which has merged (and entered into the Register of Mergers) to take effect as a gift to the new charity.

Overall, these changes have helped remove some of the bureaucratic barriers which have burdened trustees and officers of charities, which is definitely to be welcomed. So, if you have battled with 'permanent endowment', out of date governing documents or defective records, now is an ideal time to make use of these powers to make your charity fit for the future.

Caroline Armitage
Head of Charities & Consultant Solicitor
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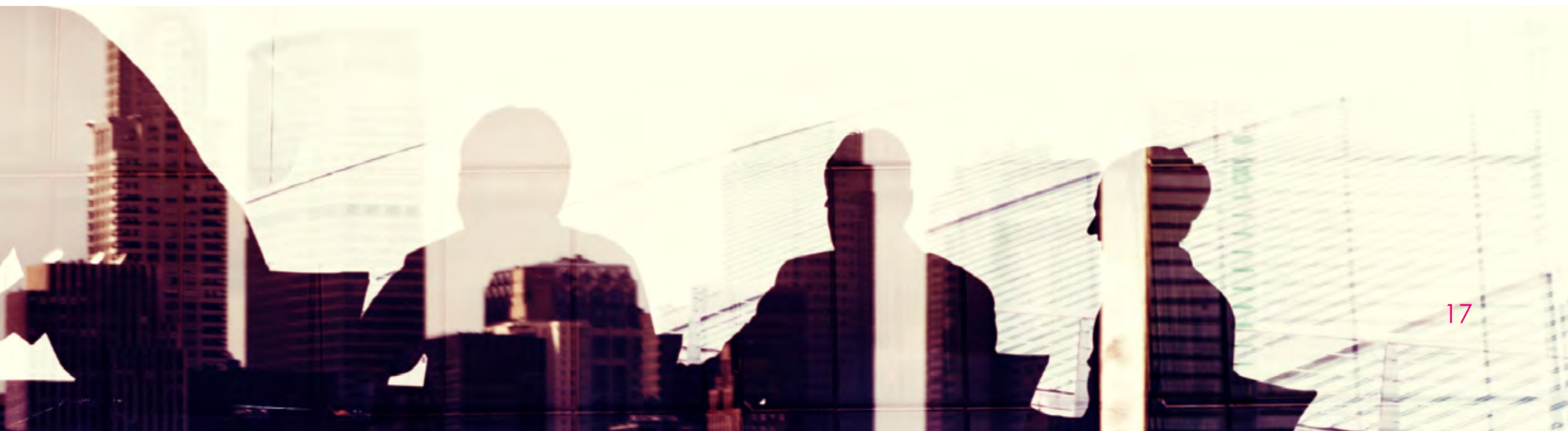
Caroline Armitage is Head of Charities and a Consultant Solicitor at Girlings Solicitors.

Recognised as a Recommended Lawyer in the 2024 Legal 500 rankings, and with a background in Corporate and Commercial Law, Caroline specialises in providing legal advice to charities and third sector organisations.

Caroline's work with charities has a particular focus on governance, where she has substantial experience of charity formations, charity schemes of arrangement, mergers, trustee disputes and Charity Commission issues – including statutory Inquiries and investigations.

Her reputation as a trusted adviser has led to a number of high profile non-executive roles. She has been a Chair and Trustee of a number of charities, both local and national and was the former Chair of Livability, the UK's leading Christian disability charity. She is currently Chair of Raven Housing Trust which provides social housing in Surrey and Sussex.



Utilising going concern information as a management tool to benefit your charity

During the course of your charity's audit or independent examination, you will prepare a substantial amount of information to support the underlying numbers in your accounts or trial balance. Central to this process is the going concern basis, which is the assumption that your charity will continue in operation for at least 12 months from the date that the statutory accounts are signed.

As auditors and independent examiners, we have a responsibility to consider management's assessment of going concern. This entails examining various sources of information prepared in support of the going concern assumption.

What is required for audit purposes?

The main sources of information typically prepared to support the going concern assumption include:

1. **Budgets**

Budgets summarise the income the charity expects to receive and expenditure it expects to incur. Like many other organisations, charities typically prepare budgets for each financial year. The majority of organisations will compare their actuals against budgets on a monthly basis. Most also forecast the anticipated year end position based on the actual year to date data and what is anticipated per the budget for the rest of the year.

2. **Cashflow forecasts**

Although some charities can overlook cashflow forecasts unless liquidity is tight they are, in fact, a very useful tool regardless of the amount of cash you have in the bank. Cashflow forecasts consider what the cash position is, per the bank account, at a point in time – usually the beginning of the month. The forecast anticipates the income and expenditure for the month in a more detailed fashion than a budget, projecting the likely month end bank position. This process will usually be repeated for a number of months.

While most management teams typically prepare budgets and cashflow forecasts up to the end of their financial year, it's important to note that, during an audit, we are obligated to consider information extending at least 12 months **following** the expected approval date of the statutory accounts. If your cashflow forecast only extends to the end of the financial year, we will request you extend the forecast up to our required period.

Turning auditor's requests into useful management information

Given the work that is put into extending budgets and cashflow forecasts for audit purposes, we recommend a change in mindset. Rather than regarding budgets and cashflow forecasts as static compliance tasks, we encourage viewing them as ongoing tools offering live management information that is continuously updated throughout the year.

This can be taken even further, by linking your budget and cashflow forecasts with your charity's strategy and reserves policy. You do, however, need to be mindful that forecasts become less reliable the further into the future we look. This is where documenting the detailed assumptions made as part of these forecasts comes into play.

The implications for grant funding applications

Maintaining up-to-date information is particularly beneficial when applying for grant funding from Trusts and Foundations.

Most Trusts and Foundations incorporate provisions into their terms and conditions for multi-year grant commitments, stipulating that funding tranches will only be released when they are satisfied with the utilisation of previous instalments. Typically, an update on project progress, along with copy of the most recently approved statutory accounts, will be required.

Given there could be a considerable time-lag between the financial information presented in the accounts and the current date at which it is being evaluated for grant funding, it would be prudent for grant-giving charities to also request an update on the recipient's current financial position. This is to ensure that the monies being released will have the impact intended, rather than being used to plug a hole in the recipient's finances.

If the recipient charity has been focusing on turning its going concern information into a live management tool, it will be in a position to provide the grant provider with the requested information in a timely manner, minimising any time delay in the release of the next tranche of monies – which of course helps cashflow.

Cash and good liquidity are key to any organisation's going concern and taking steps to enhance these can significantly bolster operational stability. However, the areas of focus will differ depending on whether you are a grant provider or a recipient. Looking at each in turn, we have outlined some of the key areas that merit attention.

My charity relies on grant funding – what should I consider?

Budgets:

Keep them rolling – most management teams are good at comparing their actual figures against budget on a monthly basis and will usually investigate any significant variances against the budget at the same time. This is the perfect point to simply extend your budget by an additional month.

Flex them - when we ask management to prepare budgets and cashflows, one of the key concerns usually holding management back is that the future is unknown. This is fine and it is actually a good thing to prepare various budgets based on different outcomes.

For example, if you have a number of income contracts that are due for renewal, it would be a good idea to have budgets based on what would happen if they were all renewed, none are renewed and some are renewed. Likewise for expenditure, you could budget for the impact that different percentage increases in staff costs would have, including the impact on employer's national insurance and employer's pension contributions.

The key here is to document assumptions made in the budget, so it is clear what impact any changes could have. Equally, if something happens during the year that completely changes your planned budget, don't be afraid to re-forecast.

As auditors, we frequently stress test the budgets prepared by management as part of our assessment of going concern. Don't be afraid to confront scenarios you hope won't happen. With proper planning and scenario analysis, even if the worst happens, you will be in a much better position to spot issues early and make a plan!

Compare actuals to budgets – continue to compare actuals against your budget so that you can investigate any significant variances and ascertain why they have occurred. This should be done on a month-by-month basis and also at the end of the financial year. This will allow you to reflect on whether the assumptions used in your budget were accurate and allow you to make your budgets more reliable and meaningful going forward.

Keep people accountable – budgets aren't just for the finance department. All key members of the management team should be accountable for what is in the budget. It is important to involve everyone at all stages of the process, from formulating the budget in the first place to providing ongoing input on their ability to deliver on their responsibilities outlined in the budget.

Cashflow forecasts:

Don't be concerned about it being perfect – if you don't know exactly when your income and expenditure is coming in, that's ok. Forecasts are just that. They can be updated when you have more accurate information.

Update regularly – just like the budget, the key is to update information on a regular basis to ensure its accuracy. This applies to not only the expected timing of the income and expenditure, but also the monthly bank balance. If your starting position for each month is not correct, this renders the information useless.

Document assumptions - follow the same principle as your budget and document your assumptions made in preparing the forecasts. Again, flex them for different scenarios, such as the impact in a delay in income being received.

Budgets and cashflow forecasts not only help a charity's financial resilience in planning ahead, but they can also be a useful tool to build an accurate picture of expected support costs for future grant applications, rather than basing assumptions on historical information which is already out of date.

My charity is a grant giver – what should I consider?

Implications of non-charitable expenditure – all charities need to comply with the public benefit requirement and ensure their expenditure is applied in pursuit of charitable activities. A charity which incurs non-charitable expenditure will, in most cases, lose its tax exemption on an equivalent amount of its income or gains which would otherwise have been eligible for tax exemption. Although rare, this can capture different types of non-charitable expenditure, including fraudulent payments.

As a grant giver, you have a responsibility under the public benefit requirement of the Charities Act 2011 and the tax exemptions afforded to charities by HMRC to ensure that expenditure is applied for charitable purposes.

Exercise due diligence - exercising due diligence in assessing the financial position of beneficiaries is crucial. As well as asking for an update on how the project being funded is progressing, it would be good financial due diligence to ask questions around the current financial position of the charity you are funding, which can include asking for up-to-date management accounts and budgets and cashflow forecasts.

- **Do ask questions on the financial information provided** – particularly if certain aspects are unclear or the assumptions used don't appear to make sense.
- **Don't solely depend on the last set of audited or independently examined accounts.** Charities have nine months to file their accounts with Companies House (if they are a charitable company) or ten months to file their statutory accounts with the Charity Commission if they are a Charitable Incorporated Organisation (CIO) or unincorporated charity. If there is a large time-lag between the financial information presented in the accounts and the current date at which it is being considered, anything could have happened in the interim.
- **Don't feel obligated to release funds to a beneficiary simply because you have made a commitment to do so.** There may be instances where it's necessary to make a difficult decision to either delay or withhold a tranche instalment if you feel that the beneficiary is not in a stable financial position. Practicing good stewardship entails making responsible choices even in challenging circumstances.

This could mean that you simply delay the next instalment until your concerns over the beneficiary's going concern position is alleviated. However, if you decide to rescind all future funding, check the terms and conditions in the grant agreement give you the option to do so as you don't want to end up in unnecessary litigation.

Informed decision making

Utilising tools such as budgets and cash flow forecasts as dynamic management instruments rather than static documents can provide valuable insights into the financial health of your charity. Additionally, maintaining up-to-date information and documenting assumptions ensures transparency and facilitates informed decision-making.

If you would like to discuss your financial processes with one of our experts, please contact your usual UHY adviser or get in touch with one of the experts listed on page 33 of this document.

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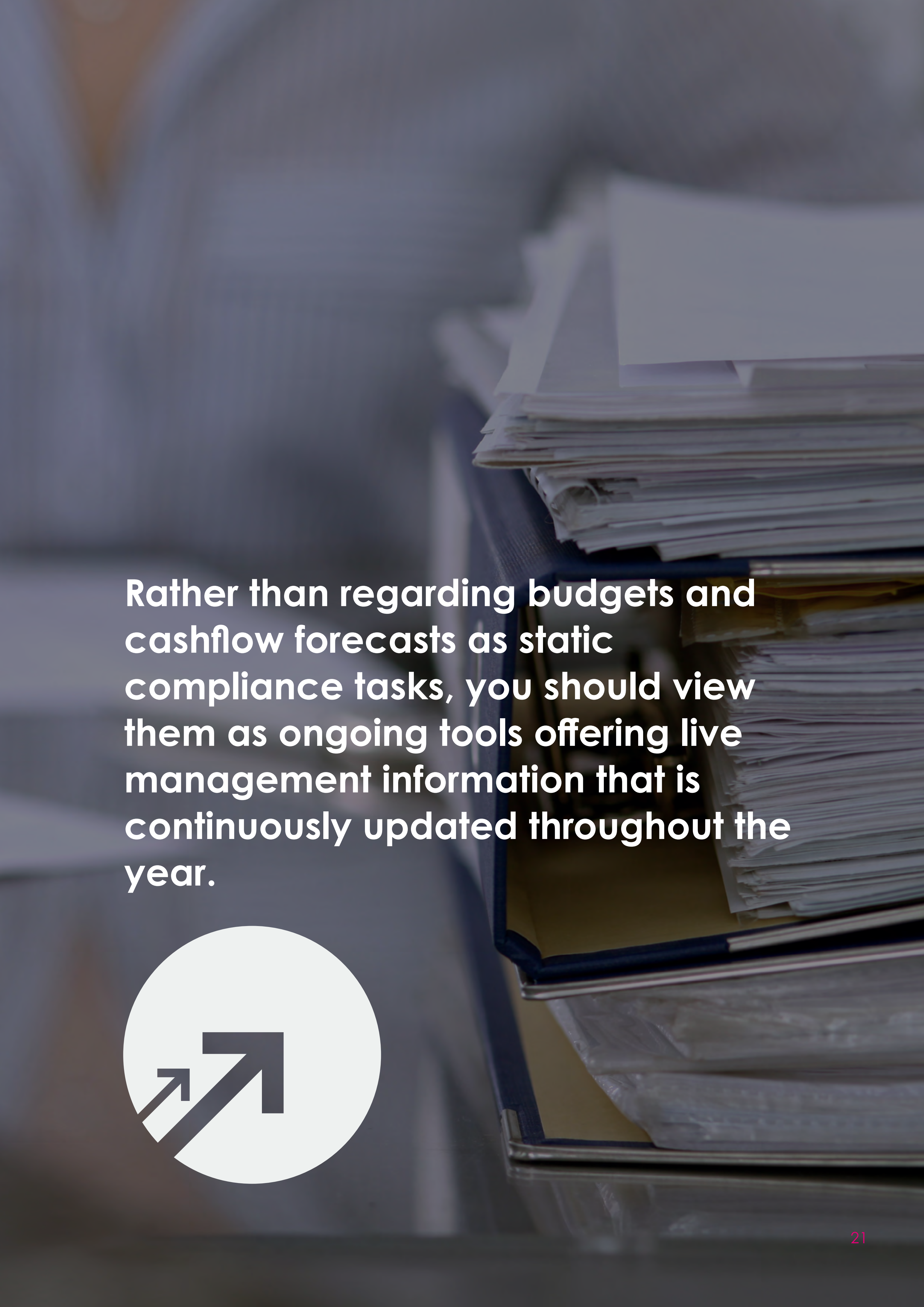
Key takeaways:

- **Tie management information into strategic plan and reserves policy**
- **Document assumptions**
- **Stress test and flex scenarios**
- **Keep information up to date**



Rather than regarding budgets and cashflow forecasts as static compliance tasks, you should view them as ongoing tools offering live management information that is continuously updated throughout the year.

Our top 10 tips to strengthen financial resilience

In the face of escalating living costs and ominous economic forecasts, the fundraising landscape for charities has become increasingly challenging. Now, more than ever, cultivating financial resilience is a fundamental necessity for charities striving to effect positive change amidst uncertainty.

Here are some practical strategies that will help you protect your financial position and navigate through challenges:

1. **Know your finances inside out:** Understanding your charity's financial health is the cornerstone of resilience. Scrutinise every cost, anticipate higher expenses and cut unnecessary spending where feasible. Regularly review budgets and cash flow forecasts to identify potential issues early on and adjust strategies accordingly.
2. **Establish a strong reserves policy:** Define a robust reserves policy and regularly review it to ensure that too much or too little is not being set aside. Your reserves policy should be a working document that fits into your charity's needs at that point in time. Once you have decided what is key, you should then work towards maintaining that level of liquid reserves in case of bad weather.
3. **Be transparent about your reserves:** Although charities do not make profits for shareholders, they nevertheless need to make surpluses out of which to accumulate reserves to fund future activities and build resilience against risks. It is essential to be transparent about your reserves policy and why the level you have set aside is required. If you are widely believed to have large reserves, further appeals for funds may provoke resentment, but too low and there may be concerns about sustainability. The Charity Commission suggests fully explaining reserves, rather than using a standard reserves policy wording.
4. **Diversify income streams:** Relying on a single source of income exposes your charity to significant risk. Sufficient income diversity means that, even if your main source of income is removed, you will be able to continue your operations and fulfil your charitable objects. Engage your team in brainstorming sessions to identify opportunities for revenue diversification and cost optimisation. Continuously assess and adapt income diversification strategies to align with your changing circumstances.
5. **Anticipate demand and adapt:** Stay proactive by forecasting changes in demand for your services and prepare accordingly. Adapting swiftly to evolving demands will help ensure your charity remains relevant and sustainable.
6. **Embrace innovation and collaboration:** Stay abreast of emerging trends and technologies. Embrace innovation to streamline operations, enhance fundraising efforts and reach new audiences effectively. Consider collaborating with other organisations, both within and outside the sector, to leverage resources, share best practices and amplify impact. A culture of innovation and collaboration will help you adapt to changing landscapes and thrive in dynamic environments.
7. **Optimise investment strategies:** If you have substantial cash reserves, periodically review investment strategies and explore opportunities to make your assets work harder, while balancing risk tolerance and liquidity needs.
8. **Renegotiate leases and loans:** Explore options to reduce fixed costs by renegotiating lease and loan terms. Flexibility in contractual agreements can alleviate financial strain and improve cash flow management.
9. **Consider outsourcing:** Identify areas where outsourcing could enhance efficiency and reduce costs, without compromising quality. Outsourcing functions such as payroll, accounting or IT support can yield long-term benefits in terms of increased efficiencies and reduced staff costs.
10. **Seek early professional advice:** Trustees have a legal obligation to safeguard their charity's financial interests. If you detect any financial difficulties, act swiftly and seek professional advice to explore viable solutions. Early intervention can prevent crises and facilitate effective turnaround strategies.

Building financial resilience is an ongoing journey that requires adaptability, foresight and proactive management. If you would like to speak to us about your situation, please get in touch with your usual UHY adviser or contact one of our experts listed on page 33.

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Now, more than ever, cultivating financial resilience is a fundamental necessity for charities striving to effect positive change amidst uncertainty.

Time to embrace digital accounting?

When overseeing a charity or not-for-profit organisation, effective financial management is paramount. Embracing digital accounting tools has proven to be a game-changer for many of our clients, revolutionising their financial processes and providing invaluable insights into funding (both restricted and unrestricted funds), the level of expenditure, as well as information about the social return on investments.

These real time insights elevate financial management practices, empowering informed decision-making and enabling the efficient allocation of resources to programs and initiatives. Additionally, the user-friendly interfaces offer significant efficiencies, particularly if you are under-resourced in the finance department or dependent on volunteers with limited financial understanding.

Here are some of the key benefits:

1. **Streamlined processes and efficiency:** Routine tasks such as data entry, invoice processing and reconciliation can be automated. We've witnessed up to 1,700 invoices processed in a single day, a task that would have taken several days through manual typing. This automation not only saves time but also allows finance teams to focus on value-added activities.
2. **Increased visibility and financial insights:** Traditional software solutions can make tracking funding income and expenditure cumbersome, often resulting in many hours spent preparing spreadsheets and analysing transactions. Digital solutions make it easier to manage and control funds, providing instant access to reports and real-time financial data and analytics. As well as helping you keep on top of budgets, this real-time visibility can help you with informed decision-making and identify areas for possible optimisation or cost-saving opportunities.
3. **Improved collaboration and transparency:** Cloud-based solutions help facilitate collaboration among team members and stakeholders by centralising financial information in a secure, accessible environment. Multiple users are able to input and access data simultaneously, promoting transparency and accountability. This not only fosters effective communication but also enhances governance.
4. **Scalability and adaptability:** If your charity is growing or you are looking to expand operations, digital accounting tools offer scalability and flexibility to accommodate changing needs and requirements. From handling increased transaction volumes to supporting diverse funding sources and integrating with other systems or platforms, the ease of scalability ensures that you can maintain financial oversight and compliance as you grow.

We have supported many of our clients streamline their financial management processes through the adoption of technology-driven solutions. One such success story is highlighted to the right of this article.

If you are eager to discover how digital accounting tools can transform your organisation, please contact Rebecca Roberts, national head of cloud accounting at UHY Hacker Young, or reach out to any of our specialists listed on page 33 of this Outlook.

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Digitalising the finance function – a client case study

Following the departure of several members of a charity's finance team, we were brought in to assist with the management reporting. Prior to our involvement, the charity had been using traditional systems for their financial management processes, relying on multiple spreadsheets for reporting purposes.

Following our assessment of the situation, our UHY team recommended a transition to cloud-based accounting software Xero, which is known for its user-friendly interface and robust reporting capabilities. The transition to Xero was successfully completed, marking a significant shift in the charity's financial management practices. The charity gained access to advanced features including tracking categories, which allowed them to monitor specific grant activities more effectively. This granular level of tracking enabled the organisation to allocate resources more efficiently, ensuring that government-backed projects remained within budgetary constraints.

The implementation of Xero also facilitated improved budgeting and forecasting processes, crucial for navigating the uncertain landscape of charitable grants. By leveraging Xero's forecasting tools, the charity was able to project future financial outcomes with greater accuracy, enabling proactive decision-making and strategic planning.

You can read more examples about how we have helped our other charity and corporate clients, teams and communities prosper, on our website at: www.uhy-uk.com/helping-you-prosper

Spring Budget 2024: what the announcement means for the charity and not-for-profit sector

When the Chancellor of the Exchequer unveiled his Spring Budget to Parliament on Wednesday 6 March 2024, there were some positive takeaways for the charity and not-for-profit sector, including an increase in the VAT registration threshold and an extension of the Household Support Fund.

The plans, presented by Jeremy Hunt, marked a pivotal opportunity to update both parliament and the UK public on the government's economic plans. The announcement was likely the government's final chance to set out spending plans before the next general election, and the Chancellor used the opportunity to set the stage for their strategies and make a final attempt to influence voters.

However, as the last decade has shown, the country has weathered a relentless storm of financial challenges, including spending cuts, a global pandemic and the financial ramifications born from it, as well as the ongoing cost-of-living crisis that continues to impact individuals and families up and down the country. On top of the detrimental effects of each of these issues on the public, the successive financial blows have left many charities and not-for-profit organisations in a state of prolonged instability with uncertain futures and longevity. Many are struggling to navigate a fall in donations and sponsorships as the public don't have the surplus finance to give as they once did.

Against the backdrop of this uncertainty and ongoing financial strain, we eagerly awaited the 2024 Spring Budget announcement and continued to hold out hope that much-needed relief and support for the sector would be made available to ensure charities can continue to deliver vital services to communities and people in need.

Key announcements for the sector

Below is a summary of the key considerations likely to impact the charity and not-for-profit sector directly or indirectly.

The reduction of NIC rates

The further reduction of NIC rates will prove to be a major advantage for charities, particularly from a Gift Aid perspective. It differs from tax rate reductions in that it preserves the rate of tax income charities can reclaim through gift aid.

An increase in the VAT registration threshold

The VAT registration threshold has been raised from £85,000 to £90,000. Though a modest increase, it offers some relief to charities amidst recent inflation levels. However, its impact will not make a significant difference.

Amendments to Gift Aid legislation

The announced amendment to the Gift Aid legislation is set to prevent unintended adverse consequences arising from the new Digital Markets, Competition and Consumers Bill (which brings in protections for customers taking out digital subscriptions). This ensures that charities can claim Gift Aid as they have previously, safeguarding a vital source of funding they receive.

Extension of the 6-week reset period for empty property business rates relief

The extension of the 6-week reset period for empty property rates relief to 13 weeks has been established to counter abuse by requiring properties to remain unoccupied for a longer period before qualifying for relief. Notably, the government didn't go forward with more drastic proposals, such as abolishing the next-in-use relief for charities. This relief, which allows charities to benefit from longer periods of empty property relief, remains intact as long as the property's intended use aligns with charitable purposes.

Investment in early career research in medical charities

The Chancellor's announcement included an investment of £45 million in early career research in medical charities, which will be significant in advancing research efforts, particularly in areas such as dementia, cancer and epilepsy.

Debt Relief Orders scrapped

On 6 April, the £90 fee for Debt Relief Orders (DROs) was scrapped, helping debt advice charities and their beneficiaries who want to use a DRO as a debt solution. Additionally, the debt threshold for DROs will rise to £50,000 starting from 28 June. These changes aim to alleviate the financial pressures for those burdened by debt and offer a route to a fresh start.

Extension of the Household Support Fund

The Household Support Fund, which was originally due to end in March 2024, will now be extended until the end of September. The Chancellor has also pledged a further £500 million to ensure this fund can continue to support those who need it. While this extension falls short of the desired two-year extension, it will help to reduce the demand on services that some charities provide. However, concerns remain regarding the potential repercussions of the fund being removed when it ends in September.

The increase in the Universal Credit loan advance repayment period

Starting from December 2024, the Universal Credit loan advance repayment period will increase to 24 months for new loans taken out by Universal Credit claimants. Although this adjustment will provide a welcome relief, it is important to note that it is only applicable to loans taken out after December 2024 and, as such, no immediate support for existing loans is included in this measure.

A rise in funding for nurseries and preschools

Funding allocated to nurseries and preschools will rise with inflation to reflect a commitment to furthering access to childcare. The introduction of this is to enable more parents to benefit from the funded 30 hours of childcare.

A positive impact on not-for-profit creative industries

Not-for-profit creative industries, including theatres, orchestras, art galleries and museums, will maintain existing tax reliefs. This includes the 45% tax relief for orchestral performances being permanently established and £26 million of funding for The National Theatre to upgrade its stage facilities. Read about this in detail on page 12 of our Outlook.

Removing the inequalities and 'unfairness' in the current Child Benefit system

Child benefit changes are being introduced to address inequalities and 'unfairness' in the current system. From April 2024, the limit on eligibility for full child benefit rose from £50,000 to £60,000 for the highest-earning parent. Prior to this announcement, if the highest-earning parent in a household earned over £50,000 they would only receive a partial child benefit payment. The changes are aimed at reducing unfairness and moving to a system based on household rather than individual incomes by April 2026. This follows extensive campaigning from some charities and from Money Saving Expert and its founder Martin Lewis.

Limitations and constraints on the charity and not-for-profit sector

While the Budget announcement did in fact contain a number of elements of promise that will positively impact the sector, it regrettably falls short of addressing some vital challenges charities and their beneficiaries face that require immediate support and resolution. Below is a summary of the limitations and missed opportunities of this year's Budget.

Stagnant Income Tax thresholds

Despite the ongoing pressures placed on households, the announcement failed to acknowledge Income Tax thresholds, meaning they have remained stagnant. By not addressing this, and with the expected impact of recent inflation already affecting the public, many households will be dragged into higher tax brackets, which may cancel out NIC reductions.

Silence on the 'Essential Guarantee' for those receiving benefits

One noticeable absence from the Chancellor's announcement was any comment or proposed action for the 'Essential Guarantee' to support people receiving benefits. The lack of such acknowledgement raises concerns about the adequacy of Universal Credit and whether the benefit can cover essentials such as food, bills and travel costs. In recent years, several charities have called for the 'Essential Guarantee' to protect those in need from going without the essentials of life.

Tax system streamlining for charities

When it comes to the complexities of the tax system for charitable organisations, some issues that the sector had hoped would be acknowledged remain unaddressed. For example, key areas such as Gift Aid, charity rate reliefs and VAT reliefs leave charities facing disadvantages compared to other organisations in recouping the VAT paid on expenditure.

These issues are nothing new and have been extensively outlined by The Charity Tax Group as they have called for urgent reform.

Overall, while the Spring Budget did introduce some positive initiatives to support the sector, it is safe to say it definitely falls short of addressing critical issues organisations face daily.

Full details of the budget can be obtained from the GOV.UK website here.

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In the spotlight: Teenage Cancer Trust

Each year, UHY Hacker Young pledges our support to a national charity, decided through a collective vote spanning our teams across our 24 offices. For 2023/2024, we were delighted to partner with Teenage Cancer Trust, championing their exemplary efforts to support young people bravely facing cancer.

Having a national charity forms an integral part of our commitment to helping people prosper and it has been amazing to experience firsthand the work and efforts of Teenage Cancer Trust.

In March, we sat down with Teenage Cancer Trust's Deputy Director of Fundraising, Hannah Sheehy, to delve into the heart of the charity, discussing the impact it has on young people facing cancer, the wider charity sector as a whole, and so much more.

Can you share some details about your background story and what inspired you to join Teenage Cancer Trust?

I've worked in the charity sector for 17 years. Although I hadn't been involved with charities beforehand, and had no experience, I began researching opportunities online and discovered that Cancer Research UK was offering an internship for people looking to gain valuable sector experience. So, I applied, and thankfully I was successful. I joined their innovation team on an initial three-month internship and afterward, I secured a permanent role in the organisation. I spent years learning about the sector, working in various fundraising teams and developing my knowledge and skills.

I've always admired the work of Teenage Cancer Trust. They are a huge charity that really does make a phenomenal difference in the lives of young people living with cancer, so working here was always an aspiration of mine. I always loved how they share young people's stories and put them at the heart of everything they do. I wanted to be a part of their story and help the charity progress with its unified goals and mission.

What attracted you to the not-for-profit sector?

Quite quickly in my career, I realised I had a hunger to find a role with a real social purpose. I knew that's where my skillset would be best utilised and where I'd have a genuine passion for the day-to-day activities of my role. I've always been driven by the desire to help others and positively impact society, so I knew working in the not-for-profit sector was right for me.

In the 34 years since Teenage Cancer Trust was launched, the charity has grown to become a leader in the field of young cancer care. Can you share any insights on why you think this is? What sets the charity apart from others?

Before Teenage Cancer Trust's founding in 1990, there was no such thing as specialist cancer care for your people, and so what that meant was that teenagers and young adults with a cancer diagnosis were treated like either young children or older adults. There was no real regard for how unique it is to be a teenager. Those years are formative in anybody's life and play such a pivotal part in our development, don't they? They are the years of our progression into young adulthood and are perhaps the most sociable and transformative of our lives - a time when we all change physically, emotionally and socially.

Teenage Cancer Trust allows young people to meet others facing cancer also – individuals of similar ages who are going through something similar. It gives young people the chance to connect with people their age and realise they're not alone. Before the launch of the charity, they wouldn't have had the chance to meet specialist nurses who were trained to deliver quality care services and who could share hard-hitting news to a young person in a sensitive and informative manner.

The experiences of a young person dealing with cancer would've been very different before the launch of Teenage Cancer Trust; it may have been even more confusing and isolating, which in turn could have impacted their recovery or how they adapted to their treatment. It is safe to say that the charity changed everything in terms of cancer healthcare for young people.

I think what sets us apart is that from the outset we were pioneers and continue to be. We now have 28 purpose-built units within NHS hospitals where young people can come and meet and bond with others their age. They can have their family and friends stay over while they are being looked after by a team of dedicated specialists.

What are Teenage Cancer Trust's core values? How are these reflected in the work you do on a day-to-day basis?

Our charity and its people are determined, united, spirited and kind – these are the core values that we hold at the heart of everything we do and what, ultimately, shape and motivate us in all of our endeavours. We are united as a community of people working with knowledge and passion to support young people living with cancer. We believe in speaking up for young people, championing their needs and future-proofing the charity to ensure our work continues, which requires us to be spirited and determined. We're always kind and show empathy towards others, respecting each person's circumstances and individuality. These values shape our culture.

Can you tell us about any achievements you have been particularly proud of since you joined the charity?

It feels particularly amazing to be a part of the wonderful Royal Albert Hall charity event. Since 2000, this landmark venue has hosted concerts in aid of our charity, with the biggest names in music and comedy coming together each year to raise funds to help our young people facing cancer. The impact has been phenomenal; there have been 22 editions of the event, including 132 shows, 600+ hours of live music and over 300 bands, artists and comedians.

This year feels even more special because our honorary patron, Roger Daltrey, announced that after an unbelievable 24 years, he's stepping down from his role at the helm of the shows. How can you say thank you to somebody who has done so much for our charity and, more importantly, for teens facing cancer? Over the years, these shows have raised an incredible £32 million – enough to provide over a million hours of specialist care from Teenage Cancer Trust nurses. What a legacy!

The line-up for this year's event was sensational; we had The Who, Noel Gallagher and the High Flying Birds, Young Fathers and The Chemical Brothers performing. It is a real labour of love, and so much effort is put into making it the success it is each year. From the performers to the organisers and everyone else in between, it is something we are all dedicated to. We also had a team from UHY's London office volunteering for this year's events, which is brilliant. In total, this year's event raised over £1.2 million, which will pay for much-needed specialist care for young people with cancer.

We read Teenage Cancer Trust's response to the Autumn Statement in late 2023 and how disappointed you were at the lack of announcements from the government on healthcare funding. Can you share a bit more about this? Particularly the importance of delivering vital care when people require it.

With a General Election likely to happen this year, we're calling on all parties to consider the unique needs of young people in their plans for cancer care. Facing cancer is incredibly hard at any age, but there are lots of reasons why cancer can hit young people even harder.

Studies suggest that people who have experienced cancer when they're young are more likely to develop mental health conditions in later life, such as depression, anxiety and PTSD. There is also evidence that it can damage young people's studies, careers, personal relationships and their ability to live independently. Slower diagnosis and delays in treatment can compound the impact of cancer on young people's physical and mental health and can cause lifelong physical and emotional damage. The government must give this the funding it deserves.

What do you think are the biggest challenges facing the charity sector at present?

The cost-of-living crisis is undeniably the biggest issue the sector is facing at the moment. With individuals and families up and down the country struggling to deal with rising costs and with so many unable to afford the bare necessities, charitable giving is at an all-time low.

The uncertainty of the crisis has compelled Teenage Cancer Trust, and likely many other charities in the UK, to shift our focus towards short-term survival strategies. We have really felt its impact in terms of fundraising and donations. People do not have the finances and resources they once had due to rising costs and, therefore, we are not receiving the donations we are used to. As a result, we're focusing on retention and continuing to strengthen our long-term relationships with our business supporters.

With the general public not having as much money as they have previously, we are relying on partnerships with companies to support our charity where possible. So, we were delighted to be named UHY Hacker Young's national charity for 2023/2024 and to hear of all the wonderful initiatives you were planning to run to raise vital funds to support our services.

Has the introduction of AI impacted Teenage Cancer Trust? How do you see it shaping the sector generally?

It is hard to know how the introduction of AI has shaped the sector and, ultimately, how it has impacted Teenage Cancer Trust because it is still very much unfolding around us. I think we are all aware that AI will impact many sectors and reshape how we all live and work. It has the potential to drive innovation and improve outcomes for charities and the people we support. Most importantly, in today's AI world, we all have to be open-minded and adaptable, moving with the times and ensuring we aren't left behind.

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

We secure financial stability through strategic partnerships and multiyear funding, which provide a solid foundation for planning. Our diverse fundraising portfolio, which includes fundraising events, campaigns, community fundraising, challenge fundraisers, legacy donations, etc., helps to provide us with confidence as we are not overly reliant on one or two specific areas of fundraising. We are also super fortunate to have a loyal supporter base. We adopt a long-term approach to finance by prioritising pipeline development, but we also closely monitor budgets and adjust forecasts as needed, as fundraising is unpredictable at the moment.

What role do you see professional advisers playing to you and the sector?

Professional advisers, particularly financial experts, play a crucial role in supporting our charity and the wider charity sector. Their expertise helps us navigate complex financial landscapes, ensuring sound fiscal management and compliance with regulations. Additionally, they provide valuable insights into investment strategies, optimising our income to generate additional funds, alongside our fundraising efforts.

Financial advisers can also offer guidance to charities on governance, strategic planning and regulatory compliance, enhancing their overall effectiveness and sustainability. They can be really fundamental in enabling charities to achieve their objectives with increased effectiveness, impact and influence.

If you would like to find out more about the fantastic work the team at Teenage Cancer Trust do, please visit: www.teenagecancertrust.org

You can also support Teenage Cancer Trust via our JustGiving page at www.justgiving.com/campaign/uhyhackeryoung2023-2024


TEENAGE
CANCER
TRUST
VOLUNTEER

Our sector expertise

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 must manage tightly controlled finances that are transparently reported in the public domain.

With income streams disrupted due to the cost-of-living crisis and increased competition for grant funding and charitable giving, your charity needs to be managed better than ever to maintain financial resilience. Knowing the questions to ask, or where to find information, can make all the difference.

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 offer advice based upon real understanding and experience.

Our approach is to provide comprehensive charity audit, accounting and taxation services which help you maintain a financially sound organisation, allowing you to focus on meeting the core objectives of your charity. In addition to the full range of accounting solutions you would expect, we also provide charity specific consultancy services, such as assisting with audits for grant and funding applications, advising on annual Charity Commission submissions, helping charities take advantage of the various VAT concessions available and assisting with setting up a charity and obtaining charitable status.

Our service is bolstered by our deep commitment to our purpose of **helping you prosper**, which applies across all that we do for our clients, our teams and our communities. This is underscored by our consistent recognition in the annual Charity Finance Audit Survey. In the latest survey, UHY achieved a **Top 3 ranking**, with 100% of participating clients awarding us full marks for both the level of our sector expertise as well as our overall service levels.

You can find out more about the services we provide to the sector at www.uhy-uk.com/charities

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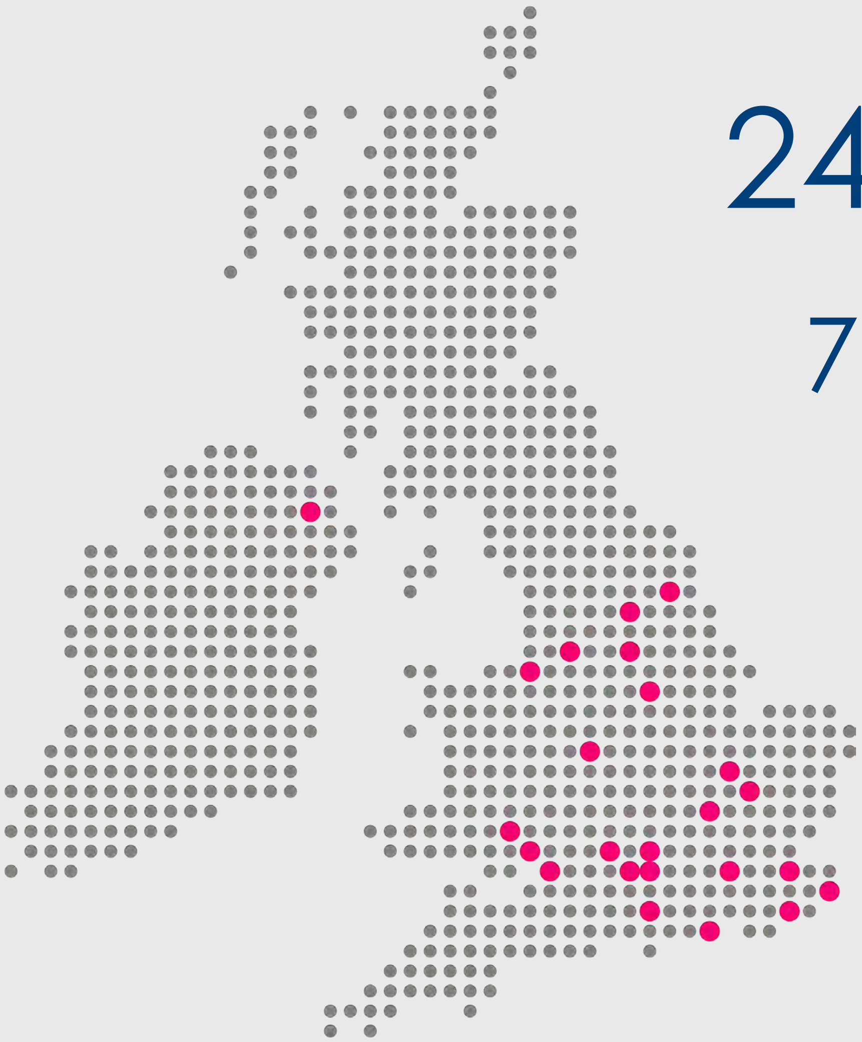
UHY in numbers



24 offices across the UK

720 professionals

96 partners

19th largest global network*

Founder member of UHY, our international network

340 offices

in

100 countries

In the latest Corporate Advisers Rankings Guide, we are currently ranked

19th

by number of AIM listed audit clients

* According to the IAB World Survey 2023

Our commitment to the charity and NFP sector spans many decades and we operate a national charity and NFP group which comprises our sector specialists across the UK.

UHY audit more than 300 NFP sector clients of varying sizes and with a range of objects across the UK.

100% of clients participating in the 2023 annual Charity Finance Audit Survey awarded UHY full marks for our level of expertise in the sector and overall service levels. **This recognition places UHY among the Top 3 firms in the survey.**

Some of our recent publications:

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