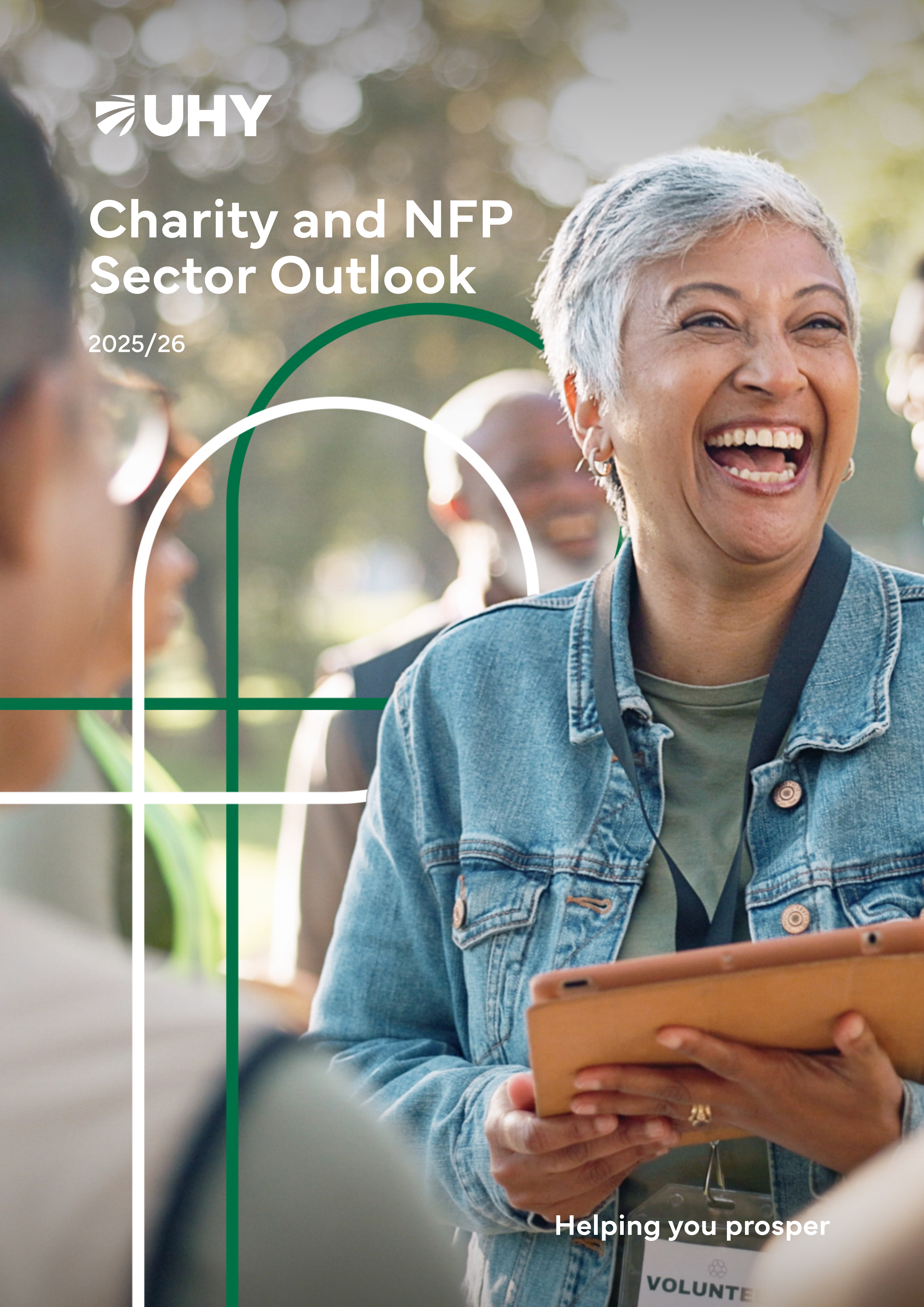
UHY

Charity and NFP Sector Outlook

2025/26



Helping you prosper

Contents

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

Editor's welcome

Welcome to our Charity Outlook for 2025/26, released at what is an especially dynamic time for the sector. The exposure draft for the updated Charities SORP represents a significant development, with finalisation expected later in 2025. Alongside this, a consultation is underway (at the date of publishing) on the thresholds at which charities will be subject to statutory audit, and we are also awaiting the results of a consultation into charity tax legislation.

This year's Outlook is packed with insights, analysis and a smorgasbord of articles designed to help you navigate the months ahead.

In light of the new Charities SORP, I have written an article highlighting what I consider to be the most significant proposed changes to charity reporting. While there are many amendments, I've picked out what I consider to be the top 10 to whet your appetite.

One of the new themes introduced into the reporting requirements for the Trustees' report under the new SORP is sustainability. This is a timely and welcome addition, as all entities, not just non-profits, are increasingly focused on this area. Harriet Hodgson-Grove, a partner in our London office and head of ESG and sustainable business services at UHY, shares her perspective on how you can align your strategies alongside the UN's Sustainable Development Goals on **page 10**.

With this growing emphasis on sustainability, ethical finance is also rising up the agenda. From investments and pensions to banking and insurance, financial choices carry weight. We're pleased to feature a guest column from Philippa Moors, Head of Charities at Unity Trust Bank, who explores the role of ethical finance in the not-for-profit sector on **page 14**.

As economic pressures remain high – driven by the ongoing cost of living crisis, financial strain on many local authorities and tax changes following the new Chancellor's Budget – charities continue to face significant financial challenges. On **page 16**, London managing partner Subarna Banerjee offers practical advice and tips to help you prepare for ongoing budgetary constraints.

Following the general election in 2024, many charities may have had to pause their campaigns if they had any sort of political stance. Dave Allum, a partner in our Nottingham office, wrote a popular blog for our website last year on charity campaigning, and he has provided deeper insight into key considerations that campaigning charities need to be aware of on **page 24**.

Further practical insights include an article by Sean Glancy, our resident VAT expert and partner in our London office, who answers some of the most frequently asked VAT questions we receive from charities on **page 26**.

Michael Fitch, partner in our Belfast office, shines the spotlight on philanthropy and charities, providing proactive steps to maximise philanthropic investment on **page 32**.

On **page 34**, York partner Harry Howley provides a reminder of the considerations that charities should be making when they receive income in the form of legacies, which can be quite a complex area depending on the circumstances of an individual's estate or the timing of when the charity is notified. We also hear from UHY's National Head of Cloud Accounting, Rebecca Roberts, on **page 36**, who talks us through the timings, challenges and benefits of taking the plunge and changing accounting systems.

We are lucky to have two further guest contributions in this year's Outlook. RBC Brewin Dolphin, one of the UK's largest wealth managers, shares guidance on Investment Governance Principles on **page 30**, while leading law firm Farrer & Co details changes to employment law that will affect all organisations, not just charities, on **page 38**.

Finally, we're delighted to present two in-depth interviews this year. Philippa Charles OBE, Director of the DFN Foundation and former Director of the Garfield Weston Foundation, shares her invaluable insights in our 'In the Spotlight' feature on **page 20**. We also speak to Victoria Lyons, Head of Digital Service Delivery at Dementia UK – UHY's national charity for 2024-2026 – about the charity's initiatives and how Dementia UK is adapting in the digital world on **page 44**. I am confident both articles will serve as an inspiring read for all in the sector.

We hope this edition of our Charity and NFP Outlook provides 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 48**.

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The next Charities Statement of Recommended Practice – what should we expect?

The exposure draft of the Charities SORP 2026 was published on 28 March 2025. This has been long awaited since the Financial Reporting Standard in the UK and Republic of Ireland 102 (FRS 102) was finalised a whole year previously, on 27 March 2024.

Does this affect me?

All charities registered in the UK and Republic of Ireland who prepare their accounts under the accruals basis must comply with the new Charities SORP for accounting periods beginning on or after 1 January 2026. Early adoption is permissible under certain circumstances. Charities will be required to prepare their accounts on an accruals basis if any of the following apply:

- income is greater than £250,000
- the charity is also a company registered with Companies House
- the charity's governing document requires accounts to be prepared on an accrual basis.

Why has the SORP changed?

Periodically, the Financial Reporting Council (FRC) reviews the UK accounting standards currently in force to ensure high-quality reporting and alignment with international accounting standards. The Charities SORP guides how to apply FRS 102 to charity accounts. Regarding the hierarchy established in accounting standards, FRS 102 requirements and legal requirements take precedence over the Charities SORP. Preparers of charity accounts should always refer to the underlying FRS 102 standard in conjunction with the Charities SORP as the disclosure requirements set out in the SORP are not exhaustive.

What's changed?

There have been several changes to the Charities SORP from the current version in force, which is the Charities SORP (FRS 102) (second edition). These have been largely driven by the changes to the underlying standard FRS 102.

The SORP does however remain very similar in its looks, and the basis of activity reporting for the majority of charities remains unchanged. So too, does the modular format of the SORP with the majority of modules retaining the same module numbers and headings as the current Charities SORP (second edition).

In this article, we take a look at what I consider to be the top 10 changes in the new Charities SORP that will have an impact:

1. Scope and application
2. Statement of cash flows
3. Related party transactions
4. Changes to lease accounting
5. Provisions
6. Revenue recognition
7. Trustees' annual report
8. Designated funds
9. Social investments
10. Heritage assets

1. Scope and application

Current reporting requirements distinguish between a small charity (income < £500,000 or €500,000) and a large charity (income > £500,000 or €500,000). The Euro (€) amounts are relevant to those charities in the Republic of Ireland that apply the SORP.

New reporting requirements will see a 3-tier reporting regime, to reflect the range of sizes of charities that are present in the sector.

In April 2025, the Charity Commission for England and Wales showed that of around 170,000 registered charities, more than 156,000 of those had income of £500,000 or less. That is approximately 92% of the sector.

The reporting requirements are expected to apply as follows:

Tier 1

All charities applying accruals accounts and with gross income of not more than £500,000 (€500,000).

Tier 2

All charities with a gross income of more than £500,000 and with a gross income of not more than £15 million (€15 million).

Tier 3

All charities with a gross income of more than £15 million (€15 million).

Charities will not only be required to comply with the reporting requirements of their own tier but also the tiers below them.

Each module of the SORP begins by making it clear which reporting tiers have to comply with that module.

As a starting point, consider which tiered reporting regime your charity falls under and familiarise yourself with the expected reporting requirements.

2. Statement of cash flows

Currently, all charities with income over £500,000 are required to prepare a Statement of Cash Flows, which is one of the primary statements of the statutory accounts along with the Statement of Financial Activities and the Balance Sheet.

The new SORP only requires charities in tier 3 (those with a gross income of more than £15 million) to prepare a Statement of Cash Flows, so long as they meet the other criteria of a small entity set out in FRS 102.

This will save time for charities preparing their own accounts, especially smaller charities that may not have the expertise of a qualified accountant familiar with preparing such statements.

The Statement of Cash Flows is however, arguably, a useful piece of financial reporting as it can help to explain to the users of the accounts the ways in which a charity uses or generates its funds. Charities can choose to continue to include this Statement should they wish to.

3. Related party transactions

FRS 102 currently allows an exemption where related parties between group companies do not require disclosure. The current SORP does not prohibit the use of this disclosure exemption but the new SORP does. This will mean that from 1 January 2026, all related party transactions required under Module 9, "Disclosure of trustee and staff remuneration, related party and other transactions" require disclosure, including those between two or more members of a group.

Comparative balances for all charities are required to be disclosed, so you should make a note of any transactions between group entities as these will require disclosure.

The new SORP also explicitly states that a transaction involving a trustee or other related party should always be regarded as material, regardless of its size, unless it falls within one of the disclosure exemptions set out in Module 9. This list of disclosure exemptions in the new SORP is shorter than those set out in the current SORP.

4. Changes to lease accounting

A new Charities SORP module, 10B, sets out the requirements for lease accounting. Our Charities Outlook 2024/25 highlighted that one of the key changes of the underlying FRS 102 requires all operating leases to be brought onto the face of the Balance Sheet as right-of-use assets. This will result in an increase in tangible fixed assets and a corresponding lease liability.

There is some good news in that there are exemptions for assets that are of low value or are on a short-term lease, where charities will not be required to bring them onto the Balance Sheet. FRS 102 does not give examples of low value items and only sets out those assets that should always be accounted for as operating leases. The proposed SORP does however give charities a flavour of the types of assets that would be considered low value. These typically include personal computers, tablet devices, small items of office furniture and telephones.

Given the complexity of this area, this SORP module in the exposure draft currently runs 24 pages long and intends to give guidance on the majority of situations that charities may have, including lease payments at below a market rate and also peppercorn rents – which are not included in FRS 102.

The proposed SORP specifies that peppercorn rents are unlikely to meet the definition of a lease under FRS 102, even though they may have legal form, and therefore they will be outside the scope of the new reporting requirements. This will be welcome news for smaller charities who have these arrangements in place.

The module for lease accounting applies to all charities.

5. Provisions

One of the consequences of charities being required to bring right-of-use assets onto their Balance Sheets is that more charities will be required to bring in provisions, for example relating to dilapidations of leased property.

The SORP-making committee has recognised this and included a new module, 10A, Provisions, contingent liabilities and contingent assets and funding commitments in the new SORP.

This module will also be hugely beneficial to grant-making charities that provide multi-year commitments to their beneficiaries. The terms of these arrangements can vary from charity to charity which can make the current treatment of whether to account for them as a creditor, contingent liability, or simply a disclosure narrative complex.

This module applies fully to all charities.

6. Revenue recognition

Last year's 2024/25 Charity Outlook also detailed the upcoming changes to revenue recognition as a result of FRS 102 being more closely aligned with international accounting standards.

The changes as a result of revenue recognition are not expected to impact charities in most of their income streams, however there are areas that are expected to be impacted such as life membership, gift aid and contracts for the provision of services.

Module 5 of the SORP, Recognition of income, including legacies, grants and contract income, is ten pages longer than the current module on income recognition. It not only goes through the new 5-step process for recognising income in detail but also clarifies the expected accounting treatment for income streams, such as membership subscriptions and income from dividends. These clarifications may mean you need to amend your accounting treatment and accounting policies in your statutory accounts.

The module for income recognition applies to all charities.

7. Trustees' annual report

The Trustees' annual report is a narrative account of what has happened in the charity during the financial period.

Good reporting explains what the charity is set up to do, how it is going about it and what it has achieved as a result of its work. It is often an area of a charity's report and accounts that can be rolled forward each year by trustees but, done well, can add real value and enhance your reporting. This is an excellent opportunity to start from scratch and think about what it is you would like to get across to the users of your charity's accounts.

Large companies have been required for a few years to report on environmental matters as part of their directors' reports. Charities are now also advised in the SORP that stakeholders increasingly want to understand how charities are responding to environmental matters and trustees may wish to consider how their trustees' annual report could best address these expectations. A new trustees' annual report heading of 'Sustainability' will be included in the format for the trustees' annual report under the new SORP. This is a requirement for all charities in tier 3, but charities in tier 1 and tier 2 are encouraged to provide a narrative as well.

Other than the above, the headings for the reporting areas of the trustees' annual report will look familiar:

- Objectives and activities
- Achievements and performance
- Financial review
- Structure, governance and management
- Reference and administrative details
- Sustainability
- Exemptions from disclosure
- Funds held as holding trustee on behalf of others.

With the exception of 'sustainability,' all other report headings apply to all tiers of charities. This is a change to the current SORP as small charities do not currently have to report on their plans for future periods but will have to do so going forward.

Many charities also prepare separate impact reports. The new Charities SORP requires charities to explain the impact the charity is making as part of their 'achievements and performance' section and must consider the long-term effect of activities on individual beneficiaries and on society as a whole. A number of our charity clients already quote testimonials from their beneficiaries as part of their trustees' annual report and the new SORP adds weight to the value these bring in this area of charity reporting.

8. Designated funds

For a number of years, designated funds could only be created when trustees have formally minuted their intention to create a designated fund ahead of the Balance Sheet date, as until then there is not considered to be a constructive obligation in place.

Should a large legacy be received post year-end that is required to be accounted for in the financial period, this can present reporting challenges if you wish to designate the funds for a specific purpose, as the current rules prevent designation until the following accounting period. The new SORP recognises that charities may not be in a position to designate funds until they have the year-end results, so the current 'in year' requirement has been removed. This also ties in nicely with the new reporting requirements of the 'financial review' section of the trustees' annual report to discuss the impact any material legacies have had on financial performance.

9. Social investments

Social investments and mixed motive investments are areas that have expanded significantly since the last Charities SORP was published in 2015. The new SORP recognises this and provides more clarification on what is defined as a social investment and the differing types. The current terminology around programme-related investments is removed and replaced with the term 'concessionary loans', which makes the reporting clearer.

10. Heritage assets

The treatment of heritage assets is a significant change to the current Charities SORP. These changes have been made to be consistent with FRS 102.

Heritage assets are not a common area of accounting for charities as they may either not be able to attribute a value to them, or they may be held for operational purposes and so classified as a tangible asset instead.

Under the current SORP, heritage assets are not depreciated. The new SORP brings in the requirement to depreciate and consider the impairment implications for heritage assets in the same way as for operational tangible fixed assets. Trustees will therefore need to consider the useful economic lives of these assets. The new SORP does recognise that there may be assets within this class that have indefinite lives and will not be depreciated. This is an area that will require robust consideration, and trustees should make sure their thought process is documented. I would also recommend having discussions with charities with similar assets so that you can be sure your accounting treatment is comparable with other charities in similar sectors as this adds further weight to any justification.

What next?

The exposure draft of the Charities SORP 2026 is subject to a 12-week consultation period which will end in June 2025. Following this, the FRC will consider feedback with a view to publishing the final SORP towards the end of 2025.

Following the consultation feedback, there may be some minor amendments made to the Charities SORP in its current form, so it is worth ensuring that you review the final SORP once it is published.

Next steps

Our UHY charity team will be in contact with our clients ahead of the 2026 implementation date, however, please do not hesitate to contact your local representative should you wish to discuss any matters relating to the Charities SORP 2026.

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Shaping your charity's future with the UN's Sustainable Development Goals

In today's world, where social and environmental challenges are increasingly entwined, the need for clear and measurable sustainability strategies has never been greater. For most charities, which are commonly mission-driven and focused on improving lives and addressing social issues globally, the United Nation's (UN) Sustainable Development Goals (SDGs) offer a powerful framework for turning mission and values into action.

By aligning with the SDGs, charities and not-for-profits can improve their operational effectiveness, help establish and maintain partnerships and open funding opportunities, all while demonstrating their commitment to making a broader impact.

What are the UN's SDGs?

In 2015, the UN introduced its SDGs – a collection of 17 global objectives as part of the 2030 Agenda for Sustainable Development. The goals address the world's most pressing challenges, including poverty, inequality, climate change, health, education and sustainable economic growth.

Each goal is backed by specific targets and indicators, creating a comprehensive roadmap for governments, businesses and individuals to not only consider but actively contribute to a more inclusive and environmentally sustainable world. Far more than a global checklist, the 17 SDGs present a universal language and a blueprint that can help charities successfully structure their sustainability ambitions, strengthen partnerships and demonstrate tangible impact.

Credit: United Nations

The role of SDGs in your charity's strategy

It is often assumed that the SDGs are more relevant to governments and larger corporations, however, they offer charities of all sizes and operations the chance to drive meaningful change and demonstrate their impact.

Here's how they can be used to influence your charity positively:

A clear framework to follow

The SDGs offer a practical framework with a ready-made structure for setting goals, measuring progress and ensuring day-to-day activities are aligned with long-term ambitions. This framework will give you the tools required to plan with purpose. To begin with, it is important to identify which of the 17 SDGs align with your charity objectives. For example, a charity focused on education may align with Goal 4: Quality Education, whereas health-focused charities may align with Goal 3: Good Health and Wellbeing.

Assessing where you are and envisioning where you want to be

Understanding your charity's current position is the essential first step in your sustainability journey. This self-assessment will allow you to quickly identify areas of strength and prioritise those that may require more attention or improvement. It also encourages a commitment to sustainability that focuses on continuous improvement. Whether you're at the beginning of your sustainability journey or it is something you're already embedding across your charity, the SDGs can help you outline achievable targets that align with both your values and long-term ambitions.

Developing greater credibility and accountability

Adopting the SDGs as a framework to follow will demonstrate that your charity is committed to responsible and sustainable outcomes. It also signals that you're serious about taking accountability and promoting responsible governance. This transparency not only builds trust with funders and partners but also positions your charity as impact-driven and, additionally, may open the door to new funding opportunities.

Using language that resonates

In today's society, funders and partners are increasingly and actively seeking organisations whose work contributes to recognised frameworks, particularly those, like the SDGs, that reflect global priorities and have a positive and measurable impact. By positioning your ambitions to the SDGs, your charity can speak the same language as other charities, businesses and government bodies, which helps you to articulate your value in a way that is immediately recognisable and, once again, reveals that you are committed to sustainability and building a better world for future generations.

> The SDGs offer a practical framework with a ready-made structure for setting goals, measuring progress and ensuring day-to-day activities are aligned with long-term ambitions.

Establishing and strengthening partnerships

The SDGs can provide common ground for collaboration with new and existing partners. By aligning with them, your charity can quickly establish shared values and objectives with other organisations, highlighting opportunities for partnership and knowledge exchange. Nowadays, businesses are continuing to incorporate SDG commitments into their ESG strategies and policies, and prospective funders are increasingly looking to support initiatives and charitable work that reflect these global goals.

By utilising the SDGs correctly, your charity can become a more appealing partner, opening doors to new relationships, shared resources and a long-term sustainable impact that goes far beyond what any charity or organisation could achieve alone. You have the unique opportunity to enhance your visibility, as well as develop sustainable solutions.

Reporting and communicating progress

Being able to show the difference your charity is making has always been an important factor of consideration for any organisation, but today the way charities are expected to report and communicate their impact has changed. Now more than ever, people want to look beyond the data and statistics; they want to know the story behind the work and its positive impact. The SDGs offer a useful framework for doing just that.

By aligning with relevant SDGs, your charity can demonstrate how it contributes to something on a global scale. In reporting, the SDGs can help bring your work and story to life. Showing funders and supporters that you're thinking long-term and measuring what matters. Whether it's through your annual reports, website information, or social media, the SDGs can help you tell a more powerful and lasting story.

Future-proofing your organisation

In today's society, sustainability is no longer a nice to have, it is becoming an essential. Utilising the SDGs can help you think more strategically about where your charity is heading. They reveal your long-term commitments to building a more sustainable world and, importantly, the SDGs show that you're focused on doing things the right way. While strengthening your brand reputation and attracting new supporters.

Making a real difference

As we consider the ever-evolving sustainability landscape, the UN's SDGs are here to provide you with a clear sense of direction. They'll help you translate long-term goals and ambitions into digestible everyday action, while still keeping your charity's vision and values at the heart of everything.

Though this transitional SDGs alignment period may feel like a big commitment at first, the long-term benefits, including greater impact, stronger partnerships and future-proofing your organisation, far outweigh any initial effort. It's an ongoing opportunity to not only show your charity's positive impact but to make a real difference in building a better world for our future generations.

At UHY, we're here to help you as your charity navigates the world of sustainability. To discover more about our ESG and sustainable business services, please get in touch.

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Ethical finance for charities

From investment decisions to banking providers, small changes can drive meaningful impact.

As charities navigate financial challenges, ethical finance is becoming increasingly important in shaping a sustainable future. In this guest article, Philippa Moors, Head of Charities at Unity Trust Bank, an ethical bank that invests in organisations that create a positive social impact, explores the role of ethical finance in the not-for-profit sector.

Ethical finance for charities

My kids are fascinated by history at the moment – The Egyptians, The Tudors, The Stone Age, world wars... their questions are testing my knowledge!

It makes me wonder how this period in our lives will be viewed in years to come.

Almost one in five children are currently living in or fleeing a war zone* and 2024 is the first year where average global temperature exceeded 1.5˚C above pre-industrial levels**.

It's easy to feel powerless in the face of adversity. That's why I want to talk about ethical finance – what it is, why it's important and how our decisions can make a difference.

> Ethical finance is becoming increasingly important in shaping a sustainable future.

What is ethical finance?

The financial system is key to how our society functions.

Ethical finance refers to a group of investors or lenders who aim to generate positive impact alongside financial returns.

Behind every project, initiative, start-up or organisation are the people who deliver it, the resources that it uses and the funding to support it.

Investors and lenders have the power to choose sustainable investments over unsustainable ones.

Unfortunately, many do not scrutinise their investment decisions in this way.

There are a growing number of ethical finance providers that are choosing to withhold funding from organisations and projects that have a negative impact on people and planet.

When it comes to ethical finance, providers tend to demonstrate a greater understanding of the not-for-profit sector as well as the value of personal relationships.

Why is ethical finance important to charities?

The topic of ethical finance is far from new – certainly when it comes to large charities with substantial investment portfolios.

Top ethical investment advisers are well versed in helping trustees navigate this landscape.

They understand whether those who finance controversial sectors such as fossil fuels and arms manufacturing are acceptable investments for a charity.

Charity leaders and trustees wanting to know more can consult the Charity Investment Governance Principles Guide. These were developed by sector experts and organisations including Charity Finance Group and NCVO.

However, charities of all sizes can make decisions on which bank they use for their current accounts and savings accounts, which insurance companies they use and where they place their pensions.

Collectively, even small organisations have the power to encourage positive change. We all have the choice where to put our money.

It's important to remember that funders get their money from people just like you and me. That could be through personal banking or on behalf of the organisations we work or volunteer for.

We have the power to improve the world we live in by choosing where to put our money. If enough money is withdrawn from funders who continue to invest badly, then they will have to change their policies.

What actions can charities take?

Change is needed if the world is to become a better place, and the finance sector needs to hear that message loud and clear.

How you contribute to this will depend on your own situation or that of your charity.

Perhaps you feel strongly enough to vote with your feet and move your banking, your insurance, your pension or your investments?

If this isn't something you are prepared to do just yet, you can still contact your existing provider to make them aware of your values. Maybe you could write to the CEO to express your views as a long-standing customer?

The first step is to do some research and find out what your finance suppliers are doing with your money.

The internet is a great source of information. If you don't have the time to do this yourself there are shortcuts you can take.

In banking, for example, organisations such as Bank Green and My Mother Tree have undertaken analysis to help you understand whether your bank invests sustainably or not. They will help you to move if you need that support.

Armed with this knowledge, I moved my kids' ISAs to an ethical bank – of course prompting further questions from my wonderfully curious offspring! This time, armed with my research, I felt equipped to answer their questions.

Calculating your carbon emissions is another key journey for charities to take.

In the UK, large companies have to measure and report their carbon emissions. Some smaller organisations are choosing to do so anyway because their staff, donors and customers are increasingly expecting it of them.

For example, when bidding for some government contracts, it's essential to report this information.

When organisations start to look at their 'Scope 3' emissions (which includes their share of the emissions from suppliers, banks, pensions, etc) they are often shocked to find how much their footprint has increased because of the finance providers they work with.

Access to banking for charities

It would be remiss not to mention the challenges that many charities face in accessing banking facilities. It is vital that charities of all sizes can conduct their banking easily.

In my role as Head of Charities at Unity Trust Bank, I am all too aware of the issues.

I believe the relationship between the finance sector and the charitable sector is crucial. Please feel free to contact me directly if you want more information.

Shaping our future

In the midst of the tireless work to fulfil a charitable purpose, trustees and leaders may unwittingly support projects that undermine that same purpose.

Time and resource are tighter than ever and not all charities will feel they are in a position to review their financial providers. We must be kind to ourselves and not feel under pressure to act when we simply do not have capacity.

It can, however, be comforting to know that we have the power to instigate change if we want to.

The next generation will continue to ask questions of us, and we must choose how we respond.

* Children in War and Conflict | UNICEF USA
** Copernicus: 2024 is the first year to exceed 1.5°C above pre-industrial level | Copernicus

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You can read more about Unity Trust Bank and their work with the charity sector at **www.unity.co.uk/sectors/charities**

Practical steps to help your charity prepare for budgetary constraints

Rising costs, reduced funding opportunities and increasing financial pressures are placing significant strain on UK charities. With employer National Insurance Contributions (NICs) increasing from April 2025 and, at the time of writing, no sign of government relief, charities must take proactive steps to navigate these financial challenges.

The financial impact of policy changes

The National Council for Voluntary Organisations (NCVO) estimates that the increase in employer NICs from 13.8% to 15% will impose an additional annual cost of £1.4 billion on UK charities. This comes at a time when charities are already grappling with rising demand, escalating costs and diminishing funding sources.

Following the October 2024 Budget, Sarah Elliott, Chief Executive of the NCVO, remarked: "This is the biggest shock to the sector since the pandemic. Charities already juggling rising demand, escalating costs, and the falling funding cannot absorb an additional £1.4 billion in costs without drastic service cuts. This additional cost, for which there is no headroom in budgets to cover, will be devastating."

The decision to exempt the NHS from National Insurance increases while leaving charities to shoulder the cost has sparked criticism from sector leaders, with many voicing concerns that the rises will force charities into a precarious position resulting in reductions in staffing and essential services. Even large charities like Marie Curie and Age UK have voiced concerns about the severe impact on their operations.

Research from Charity Finance Group (CFG) following the October 2024 Budget announcement highlighted the gravity of the situation. Their research reported concerns from nine out of ten charities with 80% stating they will need to cut costs.

Building financial resilience

Financial resilience is more important than ever. While we can't offset the impact of rising costs, here are key areas to focus on to navigate budget constraints while staying true to your mission:

Make sure you understand your finances

Ensuring trustees and management understand your charity's financial position helps in making informed decisions and implementing effective cost controls. We recommend conducting a thorough review of your charity's financial health, scrutinising every cost and anticipating future expenses. Be cautious about income, only including knowns and certainties. Be realistic about anticipated expenditure too, including any extra potential costs such as redundancies. Regularly review budgets and cashflow movements to identify potential issues early and adjust strategies accordingly.

Regularly revisit your reserves policy

What is the current level of your charity's reserves? Not that as stated in your last set of annual accounts signed off by your auditor, but today. If you don't know the answer to this question, you need to get up to speed quickly.

Your reserves policy must be tailored to the needs of your charity. While there is no fixed rule regarding how much should be held in reserve, reserves that are 'too high' can make it look like your charity is not focused on the front line but having reserves that are 'too low' can make you look vulnerable or indicate poor planning.

The policy must be flexible enough to adapt to economic changes. Perhaps you decide that, as a minimum, your charity must hold the sum you would need to fund redundancies if you had to close, or perhaps the key figure is the sum to have in reserve should major sources of funding be delayed. Once you have decided on the reserves needed, make sure you communicate your reasoning effectively. Transparency is key; ensure stakeholders understand why reserves are necessary, balancing the need for financial stability with concerns about excess funds.

Consider ways to diversify income streams

Reliance on a single income source is a significant risk. If opportunities exist for new revenue streams, explore these. For example, consider corporate partnerships, grants, social enterprise initiatives or fee-for-service models. Digital fundraising campaigns or subscription-based models can also attract a broader audience. We recommend engaging all team members, including volunteers, in identifying and testing opportunities.

Anticipate and adapt to demand

Engage with stakeholders and beneficiaries to understand their evolving needs, then forecast changes in service demand and adjust operations accordingly. This might involve scaling back non-essential activities or pivoting to meet emerging needs, ensuring continued relevance and sustainability.

Maximise Gift Aid and tax efficiencies

Gift Aid can be a valuable source of additional income, allowing charities to claim an extra 25p for every £1 donated by UK taxpayers. However, many charities do not fully optimise their Gift Aid claims. Regularly reviewing Gift Aid processes, ensuring donors complete declarations and promoting eligible donations can help maximise income.

Also, it is worthwhile exploring available tax reliefs, including business rates relief and VAT exemptions on certain charitable activities.Reviewing VAT treatment and seeking professional advice on tax efficiencies can result in significant cost savings.

Fixed costs and investments should be reviewed periodically

Where possible, leases, loan terms and supplier agreements should be renegotiated to improve cash flow. For charities with investment portfolios, periodically review strategies to ensure your assets are working effectively. If you have a large portfolio, professional advice should be sought to optimise returns while maintaining a risk profile aligned with the organisation's objectives.

Embrace innovation and collaboration

Leveraging technology and fostering collaboration can help enhance efficiency and broaden your impact. Explore opportunities for shared service agreements with other charities that have a similar mission or opportunities to collaborate with local businesses or other charities to share resources and reduce costs.

On the tech side, make sure you are making the most of free AI programmes, where relevant. 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 Copilot can be used to generate copy or media content, help with grant applications or digest and summarise reports. However, while AI can do a great job of responding clearly to questions, it 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, complies with legal and ethical standards and respects copyrights.

Also evaluate the cost-benefit of outsourcing non-core activities. For example, outsourcing functions like payroll, accounting or IT support can improve efficiency and reduce staff costs, allowing your team to focus on delivering mission-critical services.

Engage younger audiences

Younger people are increasingly motivated by social causes and are more likely to engage with charities that align with their values. However, engagement strategies need to be adapted to suit their preferences. Digital storytelling that highlights the tangible impact of donations can be highly effective. Inclusive campaigns that involve younger influencers or advocates could also amplify your message. Additionally, offering skills-based volunteering opportunities tailored to younger supporters can attract new talent while benefiting both the organisation and the individuals involved.

High governance standards remain key

Good governance is essential for financial sustainability and public trust. Recent Charity Commission investigations have reinforced the importance of proactive governance, particularly in relation to financial management, partnerships and safeguarding.

Trustees should regularly review governance structures to ensure compliance with the Charities Act 2022 and other regulations. Developing clear policies for partnerships and affiliations will help mitigate reputational risks, while ongoing trustee training ensures that financial oversight and ethical decision-making remain strong.

Seek to align investments with ethical and mission-driven goals

The Charity Commission has issued new guidance to help trustees ensure their investment strategies reflect their charity's purpose. Reviewing investment policies to ensure they align with the charity's mission and public expectations should be a priority. Environmental, social and governance (ESG) factors should also be considered, alongside financial performance. Professional advice can help strike the right balance between ethical considerations and financial returns.

Financial transparency is a crucial aspect of governance

Instances of financial mismanagement have highlighted the need for trustees to ensure funds are used appropriately and in line with donors' intentions. Establishing clear financial reporting processes, reviewing internal controls regularly, and publishing detailed annual accounts will help maintain public confidence and demonstrate accountability.

Safeguarding remains a non-negotiable priority

High-profile investigations, such as the Charity Commission's review of Mermaids, have underscored the importance of having robust safeguarding policies in place. Regular safeguarding audits and risk assessments should be conducted, and all staff and trustees must receive appropriate safeguarding training. Policies should be publicly accessible and reviewed annually to ensure they remain up to date.

Address challenges with a commercial mindset

A commercial mindset is increasingly important in the charity sector. While public donations remain a primary income source, economic conditions influence consumer behaviour. When disposable incomes shrink, donors may give less, making fundraising more competitive. In a crowded market, standing out and clearly demonstrating impact is essential.

Consider your approach to corporate partnerships. Many corporates run their own social initiatives and may not immediately see the value in partnering with a charity. To secure meaningful collaborations, clearly articulate what your charity offers – for example, access to a unique audience, credibility in a particular cause or opportunities for employee engagement.

Proactively engaging with your bank can also help strengthen financial resilience. Understand their requirements and explore potential support options, such as overdrafts or payroll guarantees during short-term cash flow gaps. Diversifying banking relationships can further mitigate risk and enhance financial flexibility.

Embedding financial expertise at a senior level can also foster a culture of commercial awareness across the organisation. A strong finance team can drive cost efficiencies, develop innovative income strategies and implement robust financial management practices – ensuring long-term sustainability.

Seek professional advice early

If your charity is an unincorporated association or trust, you and the other trustees could be liable for its debts. Nobody likes to think that they are in financial difficulty but seeking professional financial advice early can prevent issues from escalating into crises. Trustees have a responsibility to act promptly when financial difficulties arise, exploring viable solutions and implementing effective turnaround strategies where necessary. Four of our specialists are appointed to the Charity Commission Interim Manager panel and we can advise on the various options available.

In summary:

- Have a good understanding of your charity's financial position and a strong reserves policy
- Factor higher than anticipated costs into any planning assumptions
- Revise income targets and review the demand for services, and then plan how to deliver your services in the context of higher costs
- Foster a commercial mindset to build long-term sustainability
- Explore available tax reliefs, including business rates relief and VAT exemptions on certain charitable activities
- Explore opportunities for cost-saving collaborations and shared services
- If, in your review of the financial health of the organisation, any major risks or problems are identified, take urgent action.

Developing a little more of a commercial edge and focus will help your charity prosper in an increasingly competitive market. While the road ahead is uncertain, we are confident the resilience, adaptability and commitment of the sector will ensure that charities continue to serve those who need them most. If you would like to speak to any of our experts about your situation, please get in touch with your usual UHY adviser or contact one of our experts listed on **page 48.**

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In the spotlight: Philippa Charles, OBE, director of the DFN Foundation

Philippa Charles became the first full-time director of the DFN Foundation in November 2024, marking a pivotal moment for the venture-philanthropy funder as it builds on its work in disability education, disability employment, health and conservation.

Bringing over 16 years of leadership experience as Director of the Garfield Weston Foundation, where she built the organisation and oversaw over £1 billion in grants, Philippa has a deep understanding of philanthropy and initiating change. Her impressive career also spans roles at Barclays Plc, Ernst & Young and JM Consulting, blending corporate expertise with a passion for the charitable sector.

We were thrilled to sit down with Philippa to hear more about her inspiring journey, the transformative work of the DFN Foundation and her perspectives on the challenges and opportunities facing the charity sector today.

Philippa Charles, OBE
Director
DFN Foundation

Can you tell us a bit about your journey in the charity sector and what inspired you to take on your current role at the DFN Foundation?

I have been enormously fortunate to have worked with a broad range of charities over the past 17 years and that variety means I've gained an extraordinary overview of the sector. When I started, if someone had told me I'd be giving over £1billion, I would probably have been rather over-awed, but it has been a wonderful privilege to build partnerships with charities large and small across the country and to support them in creating change.

David Forbes-Nixon was the key reason I joined the DFN Foundation – he is the Founder and Chair and is kind, talented and generous and he devotes much of his time, money and skill to create positive change. I've known David many years and he, and the DFN Foundation, has already achieved a lot, but there's still a lot to do and that potential excited me.

What is the mission of the DFN Foundation? Can you highlight a specific programme or initiative and its impact?

We focus on 4 key issues that our Founder and his family have lived experience of, where there is a clear need and where we believe we can make a difference – basically we focus on what we know about, what needs doing and where we can add value. These areas are disability education, disability employment, myeloma cancer research and conservation.
Our support can best be described as 'venture philanthropy' – we seek strategic partners where there is a clear opportunity to create more impact; and we use our funding, resources and capabilities to support them to do this.

If a suitable partner or infrastructure doesn't already exist in an area where we wish to make a difference, then we initiate or build an organisation ourselves – we've already achieved this with DFN Project Search which now provides over 1,200 supported internships across the country every year to young people with disabilities – 70% of the interns go on to obtain paid employment, and it's still growing, with great partners like Amazon and Asda, with over 2,600 young people into jobs so far. We've also established a very successful special needs school in the Undershaw Education Trust, so we have a great track record to build on as we look for additional ways to 'move the dial' on our focus areas.

As an influential leader in the sector, how do you balance operational and strategic priorities while remaining true to your charity's mission?

I think this can be a challenge for any CEO, but it's important to have a clear 'North Star' – the goals or objectives that everyone in the organisation can look towards – as this helps you prioritise and decide whether an idea or activity is worth pursuing or not.

The DFN Foundation has clear goals, and I am underpinning these with action plans that encompass 6 key areas – Partnerships, People, Operations & Processes, Governance, Finance and Media & Comms. Having a strategy and an ambitious action plan is helpful so we can maximise our impact, though as a small organisation we can be agile too, and I'm a firm believer in keeping things simple.

I'm also grateful for an incredible network of talented people who advise, challenge and support me – to my slight discomfort, I think that may be because I've been in the sector a long time!

What do you feel is the best way for a management board to interact with its Trustee Board? What kind of involvement do you most value from your Trustees?

I've sat on a range of Boards as a Trustee and it's such a privilege when it works well as there is mutual respect for the different range of skills and experience round the table. When the charity's objective is clear, there is an effective Chair and each Trustee knows how and why their knowledge and skill is needed, it strengthens the connection between the management team and the Trustees as they can all work in a coordinated way to achieve shared goals.

At the DFN Foundation I benefit hugely from having a highly involved Executive Chair, along with a small but experienced Board and team, as we discuss ideas and plans in a collaborative way. I'm still quite new to the role but it's already been interesting to see how our conversations have led to great results, and it's also enjoyable!

Image credit: Undershaw School

What role do you think collaboration and partnerships play in driving success for a charity?

I think they're increasingly essential! Creating positive and effective impact can't be done alone, and yet lasting change is also driven by passionate and talented individuals; so staying connected and interested in what others are doing, while not losing sight of one's own goals, is really important.

Obviously, collaboration can come in many guises from a 'light touch' approach to sharing information and ideas to full scale joint ventures, and everything in between. Sometimes it can be a challenge to remain up to date with others' work, while not being drawn into too many 'talking shops', which brings me back to the 'North Star' of a charity's purpose – if you're clear about what you're trying to achieve then it's easier to work out which partnerships and connections will drive the greatest impact. Then those valuable connections can be nurtured and developed to benefit everyone.

Image credit: Undershaw School

What are some of the challenges and opportunities in the sector currently?

I think we have an opportunity to challenge what can sometimes seem like an overwhelming narrative of doom – I do feel the media can be unhelpful in this regard! While there are many challenges to overcome, too much negativity can affect people's appetite to get involved. Today we see greater need and increasing polarisation of views and communities; but there are opportunities too, and I think it has always been challenging for charities to survive and thrive. I have great faith in the spirit and ingenuity of talented people who are motivated to make a difference, mostly because I've been lucky enough to work with, and learn from, many of them!

There are generous new donors entering the sector with the funds and desire to help. And there's technology – which can be both a curse and a blessing – that can help us stay informed and connected and can give a platform and a voice to those who were previously unheard.

Staying connected with others, focusing on the things you can make a difference to (and trying not to worry about the things you can't!) and maintaining a positive mindset are all important for individuals and charities to be successful.

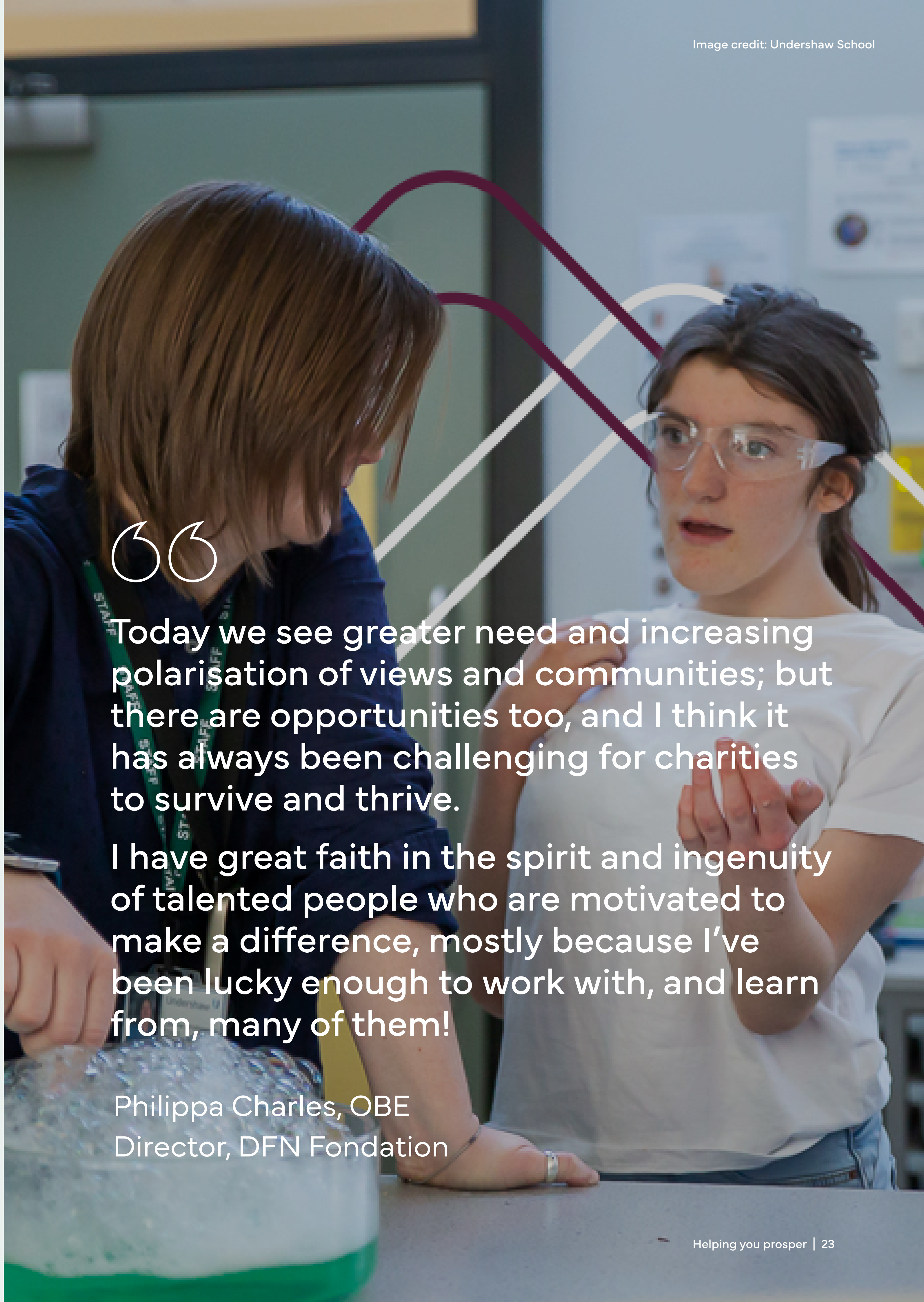
Finally, what advice would you give to anyone moving into a leadership role within a charity?

Go for it! Follow your passions and dreams as it's amazing what can happen. Ensure you have the infrastructure and support to be able to execute your plans with confidence. Also, build a network of people you can ask for advice and different perspectives – when things get tough it's those around you who make all the difference in the world. Be selfish enough to choose to work with only the best people, they make you better. Oh, and have some fun along the way... the journey matters as much as the destination.

You can read more about the work Philippa does at the DFN Charitable Foundation **here**.

DFN Charitable Foundation

Image credit: Undershaw School



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I have great faith in the spirit and ingenuity of talented people who are motivated to make a difference, mostly because I've been lucky enough to work with, and learn from, many of them!

Philippa Charles, OBE
Director, DFN Fondation

Navigating charity campaigning

Many charities I speak with are concerned about a range of issues, particularly the impact of the 2024 Autumn Budget. The rise in employers' National Insurance Contributions is a major worry, with some fearing it could be the final straw for already overstretched budgets. Understandably, many want to speak out publicly to highlight the impact on their organisation. However, it's essential to do so carefully and within the rules to avoid inadvertently engaging in activities that fall outside your charity's remit.

Understanding campaigning in charities

First, it is worth considering what is meant by campaigning. This is usually defined as activities engaged in by charities to raise awareness, educate and inform the public, perhaps to try and change attitudes or to ask that a piece of legislation is protected or enacted.

Every charity will have a stated aim or objective recorded in its governing document. It is a legal requirement that activities undertaken by a charity must deliver only the stated aim. Operating outside of this aim is a breach of trustee duties and could result in trustees being held personally liable for any funds spent on such activities. If you haven't reviewed your governing document for a while, I'd recommend dusting it off (or downloading it from the Charity Commission!) and reviewing what is set out and recorded. If you find the objective needs to be added to or amended, there is a process to follow which requires Charity Commission approval.

The rules around political campaigning

As a general rule, charities can only engage in political campaigning or political activity if it clearly supports your stated objectives. For example, campaigning for a change in the law that directly supports the objectives of your charity would be considered acceptable. However, if you speak out against government policy, you must ensure it does not breach the rules on political campaigning.

There is an incredibly helpful **guide on the Charity Commission website** which summarises the key issues. It's well worth taking five minutes to review the guidance and make sure you are up to date with the rules, especially if your charity is considering making a public statement on government policy. The guide also offers advice on how to avoid inadvertently engaging in activities that fall outside of your charity's objectives.

The impact of social media and public figures

It is important to note that activities are not limited to formal announcements and publications. Anything posted on social media by team members or high-profile supporters on behalf of the charity should also be considered subject to the rules on campaigning.

Political figures may also seek to engage with charities to enhance their public profile. However, their involvement, especially on social media, can potentially introduce unintended party-political messaging, posing challenges as charities must always remain neutral and impartial. An important point to remember in this respect is that trustees must not use a charity as a platform for their own political beliefs.

The power of collective campaigning

Rather than campaigning alone, consider whether a larger organisation you belong to could assist the cause and amplify your voice. A good example of this is Hospice UK, which issued a strong response to the 2024 Autumn Budget, sparking constructive discussions about additional support for hospices. As I write, the government has announced a significant support package for the sector. It's unlikely a lone hospice campaigning would have achieved this, but the campaigning of a national body has created a force to be reckoned with.

Case study: the success of Zoe's Place

On the subject of hospices, last year Zoe's Place, a Liverpool-based children's hospice, achieved amazing success with a fundraising campaign that secured its future. The hospice had been trying to build a new premises, however, planning delays, rising projected build costs and an expiring lease meant the hospice faced imminent closure. Zoe's Place published a statement in October 2024 announcing that the only available option was to close at the end of the year.

The key thing to note here is how Zoe's Place made the announcement – there was no emergency appeal launch, just a stark statement that made it very clear closure was inevitable.

For those familiar with the unwavering sense of community the people of Liverpool have, it will come as no surprise that this announcement was taken as a call to action. And what an action! One major retailer pledged £2.5m almost immediately, while other businesses raised hundreds of thousands almost overnight. Community fundraisers surged into action, raising over £6m in a month! As a result, Zoe's Place continues and the move to new premises will go ahead.

Ensuring charities can speak up safely

Campaigning can be an area that catches charities out and this may cause trustees to err on the side of caution and avoid campaigning activities. However, there are many examples of changes in policy or actions attributed to effective charity campaigns and trustees should certainly look to speak up in the interest of the charity. By following a few simple rules, such as ensuring that any campaigns are factually accurate, politically neutral and compliant with Chairty Commission guidance, a great deal of good can be done by effective charity campaigning.

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VAT essentials: answers to your key questions

VAT is one of the most complex tax issues affecting the charity and not-for-profit sector and navigating its rules can be challenging. Over the years, our charity and not-for-profit clients have asked us a wide range of questions about VAT – many of which highlight common misunderstandings and pitfalls that could lead to unexpected costs or compliance risks.

In this article, we address some of the most frequently asked VAT questions we receive, covering key areas such as VAT reliefs, business vs. non-business activities, property transactions and dealing with HMRC. However, we would stress that this only covers a small selection of the VAT issues affecting the sector and we would recommend that advice is always sought, even if just to ensure you are able to rest easy knowing that you have reviewed your position.

We are only a small local charity, can't we buy things we need VAT-free?

Although the Government has introduced several specific reliefs to help the charity sector, the truth is that many of your costs will include VAT. Unfortunately, you will probably be unable to reclaim much of this. The focus should be to ensure your various suppliers apply the reduced or zero-rate of VAT where they can, to reduce your VAT costs overall. The reliefs are defined but include charity advertising, property development, some fundraising activities, supplies of staff between charities and some other specified activities. It is critical to check the requirements as all have closely defined conditions.

We're not running a business. Does VAT really apply to us?

Unfortunately, yes it does. VAT is a tax on individual sales of goods or services. Whenever you sell something in return for payment, even though you might not make any profits, you are probably within the VAT system and must deal with all its obligations.

HMRC issued a clarification of their view of business activities following a court decision in its favour. This simplified the interpretation but will mean that more transactions are within the scope of VAT.

I've never dealt with VAT before. Is it something we can do ourselves or do we need help?

It is a sad fact, but the charity sector is forced to grapple with some of the most complicated areas of VAT. That is not to say that you are unable to deal with it yourself, but we would recommend that first a specialist adviser helps you understand the VAT issues that affect your organisation and set up your accounting systems in the right way to produce the information you need. This should allow you to be compliant and also reduce VAT cost.

Going forward, you will probably be able to deal with the routine VAT returns by yourself. However, to ensure you are protected from a later VAT cost, we would always recommend seeking advice when anything unusual arises or you are considering a new project.

HMRC has written to us saying that we are in business and owe VAT. Have we done something wrong?

This is one of the most common problems for the charity sector, where a source of income is believed to be free of VAT but HMRC takes a different view. Often you have not done anything wrong, it may simply be that the contract or funding agreement was not drafted with VAT in mind and is therefore not as clear as it could be, giving HMRC the opportunity to challenge the VAT treatment.

The issues often revolve around grant funded activities, where there can be a fine line between a grant and a payment for services provided under a contract. A grant is generally free of VAT, whereas services provided under a contract could be subject to VAT at 20%.

Obviously, this is a big difference, particularly if the funder providing the grant is unable to reclaim the VAT. Conversely, charging VAT will enable you to reclaim the VAT you pay on associated expenditure, so being in the VAT system might be positive. If the funder providing the grant, such as a Local Authority, can reclaim any VAT you might charge, working under a service contract rather than a grant funded arrangement could be in your charity's best interest. The key issue is to establish if there is a benefit and who receives the supply made by the charity.

One of our trustees thinks we may have non-business issues and partial exemption. Are they different things or can we deal with them together?

The first question for you to consider is whether your activities are carried on in the course or furtherance of business for VAT purposes. Non-business activities will generally not allow you to reclaim any VAT paid on purchases relating to the non-business activity.

Any business activities could be subject to VAT at 20%, 5%, 0% or even exempt from VAT. Exemption from VAT prevents VAT paid on associated expenditure from being reclaimed. If taxable and exempt supplies are made, this will result in partial exemption applying and mandatory recovery calculations.

Determining whether your activities are business or non-business, taxable or exempt, is crucial before you can even start to work out how much VAT you can reclaim.

How do I work out my recovery method?

Once you have determined the VAT treatment of your activities, you must then carry out business vs non-business calculations to work out how much VAT is considered input tax (VAT incurred that relates to business activities) and undertake a partial exemption calculation to determine how much input tax you can recover.

There is no specified VAT recovery method for business and non-business VAT recovery apportionments. However, there is a statutory method for partial exemption. Both methods must result in a fair and reasonable result.

You can agree something different with HMRC and a combination method (business/non-business and partial exemption) if appropriate. These calculations can be subjective and are, unfortunately, the cause of many disputes between not-for-profit organisations and HMRC.

We let out some rooms, for example to local mother and toddler groups, and just recoup our costs. HMRC say it's a business activity and want VAT from the building works we had completed some years ago. Can that be right?

We talked about non-business activities, above, preventing you from reclaiming VAT on associated expenditure. Non-business activities have types of goods and services free of VAT, including specified building works free of VAT.

HMRC is likely to take the position you have supplied services in return for payment which is a business activity for VAT purposes. The fact that the income was exempt from VAT as a welfare service does not matter, because it could mean that either your builder should have charged you VAT at the time or you have changed your activities and HMRC can charge you VAT on a proportion of the original building costs. Where a builder relied upon the non-business certificate provided at the time of the build, HMRC will demand the VAT from the charity involved, as they are doing here.

There is normally a ten-year adjustment period for capital expenditure, so change of use and particularly increased business use will cause issues and needs to be monitored.

> Sean and the team have provided excellent professional VAT advice to the Fund for a number of years. We value the collaborative nature of the engagement, particularly the contribution to developing the knowledge of our own staff whilst providing the service. UHY and Sean have always considered the community benefit nature of our organisation and have ensured value for money across all assignments.
>
> **Emma Kavanagh, Finance Director**
> **The National Lottery Community Fund**

We want to rent office space for our team giving out grants, but the landlord wants to charge VAT which will make it very expensive.

Provided you will use the office for non-business purposes, you can give the landlord a certificate to that effect which will prevent them charging VAT on the rent. However, this might result in a VAT cost for the landlord.

We suggest you agree the treatment before issuing a certificate. In some situations, landlords might be more willing to reduce the rent but keep it subject to VAT, rather than remove the actual VAT charge itself.

We own our building and need to undertake building works, but adding 20% VAT to the costs will mean we need more funding. A local charity says they got all their building works VAT-free. Can we do that?

If you want to simply renovate your building, there may be little that can be done about the VAT. If you want to construct an extension or annexe, however, provided it can be structured as a self-contained annexe and subject to certain conditions, you may be able to arrange its build free of VAT. You will need to be careful, as HMRC are strict on the type of annexes they will allow to be built free of VAT and you will need to consider the VAT implications from the very first stage of seeking planning permission to ensure that everything meets HMRC's requirements to allow zero rating.

We have always treated our trading as business activities, but HMRC says it is non-business and wants us to repay all of our input VAT.

This situation often arises when a charity provides goods or services that are free of VAT, leading to a regular or even permanent refund situation as regards its VAT returns. HMRC may argue that the activities are actually non-business to try and block input VAT refund claims. The key takeaway is to plan your contracts in advance; make them as robust as possible and clearly drafted as sales contracts with goods or services provided in return for payment. The crucial point it to ensure a 'direct and immediate link' between the goods or services provided and the payment received, even if the payment comes from a third-party.

Some of our corporate sponsors are quite generous and we want to give them rewards for their donations, such as tickets to an event or an award named after them. The money they give us is still ok, isn't it?

This is an area of real difficulty and one that has resulted in many charities owing significant sums of VAT. The simple rule is that if the donor is given no more than a simple acknowledgement of their support, the donation is not seen as payment for anything and is free of VAT. As soon as you display their brand or logo, or name an award after them, they are seen as receiving advertising services from you and the whole sum could be subject to 20% VAT.

This also applies to free tickets to an event, which are seen as a supply of services in return for the money. In some situations, where you can identify the price of the goods or services and the amount of the donation on top, HMRC may allow VAT to be applied just to the actual payment, leaving the additional donation free of VAT. However, this would need to be examined carefully to avoid an additional VAT bill and penalties.

Does VAT apply to online training and sales overseas?

Online training can have special VAT rules. If the supply is passive (ie. pre-recorded with no human intervention), it may trigger a VAT registration obligation in the customer's country if they are outside the UK – and there is no registration threshold.

For charities selling goods online, the normal VAT rules apply. If the goods are exported to another country, this can cause VAT obligations, including potential registration requirements. Although the EU offers some simplifications, these cannot be applied retrospectively.

What are the penalties for errors?

VAT errors are likely to result in penalties. For errors in accounting, these are typically 30% of the error, plus interest.

The penalty regime was extended to nil returns and repayment returns in 2023, even if there was no revenue risk or loss.

What is it like dealing with HMRC?

HMRC is a revenue raising department with additional revenue targets and ongoing resource issues. While we frequently challenge HMRC decisions, we always maintain a professional working relationship, advocating for the right answer for our clients.

Where there is a risk of challenge, we will look to gain certainty for clients. However, the courts have noted that HMRC generally decline to give rulings that might be relied upon, which mirrors our experience. As a result, we work within HMRC's practices to provide assurance for clients, frequently seeking to establish 'legitimate expectation' which is the only defence for the tax payer if HMRC fail to properly advise (previously referred to as misdirection) to the charity's detriment.

We are here to help

VAT is a constantly evolving challenge for charities, and misunderstandings can lead to significant financial consequences. Whether you're unsure about VAT reliefs, need guidance on structuring grants and contracts or want to ensure your organisation is reclaiming VAT correctly, it's crucial to stay informed and proactive.

At UHY, we specialise in helping charities and not-for-profits navigate VAT complexities. We provide ad hoc advice, reviews, compliance and fixed price services, which are all evidence of appropriate tax risk management and the exercise of reasonable care.

If you have any VAT-related concerns, no matter how small, please get in touch. We're here to help you focus on what matters most: making a difference in your community.

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The 10 reliefs available to charities

Charities can benefit from specific reliefs for the purchase of certain goods and services. This allows the application of the zero rate to those qualifying purchases. Specific reliefs for expenditure include:

- Advertising and goods connected with raising donations
- Aids for the disabled
- Construction – Relevant Charitable Purpose (RCP)
- Drugs and chemicals for medical or veterinary research
- Equipment for producing 'talking' books and newspapers
- Lifeboats, slipways and launching and recovery equipment
- Medical and scientific equipment
- Medicinal products purchased by a charity engaged in the treatment or care of people or animals
- Rescue equipment – for charities providing first aid or rescue
- Resuscitation training models

Note: please always seek professional advice related to the application of these reliefs

New Charity Investment Governance Principles give greater clarity to trustees

In a first for the charity sector, Charity Finance Group (CFG) has developed Charity Investment Governance Principles (CIGPs), a set of guidelines designed to give charities more confidence when making investment decisions.

With the principles coming hot on the heels of the 2023 update to the Charity Commission's guidelines on investing charity money (CC14) and complementing the existing Charity Governance Code, we asked Jeffrey Ball, charity investment manager at RBC Brewin Dolphin, for his expert insight.

Key principles

A steering group consulted with over 100 charities and several advisers, with the Charity Commission acting as an independent adviser. As a result, the following seven principles were created to promote excellence in financial decision-making by charity leaders:

1. Purpose of investments

It is essential that trustees have a shared understanding of why they are investing, and that it is a way to further the charity's purpose

CC14 reminds charities, even small ones, to consider their investment strategy, which includes cash in the bank. Charities can create a sustainable financial platform by making reserves work harder, generating a better financial return and increasing impact for beneficiaries. It's therefore essential that any legal responsibilities, investment requirements or restrictions and, crucially, the charity's time horizon, are understood and recorded.

2. Leadership

Even for charities with large executive teams, it is the trustees who have ultimate and collective responsibility for the charity's investments.

Trustees typically form an investment committee or have finance staff working with an external manager, with at least two experienced trustees providing oversight.

Decisions are guided by clear terms of reference and are reviewed by the full board.

3. Integrity

Charities are ultimately for public benefit; therefore, it is essential that the charity's purposes are at the forefront of any investment decisions.

Trustees must remember that personal opinions or interests must not influence or conflict with any decisions relating to the charity's investments. Trustees must document conflicts of interest and risks to avoid reputational harm and prevent private benefit.

When investing, charities must balance potential benefits against risks, prioritising the charity's best interests and aligning investments with its purposes. This ensures responsible decision-making and compliance with the CC14 guidelines.

4. Decision-making, risk and control

Through effective leadership, with integrity, it means effective systems can be established to ensure good decisions are made.

Charity trustees must understand their risk appetite, seek expert advice where needed and monitor investments regularly to ensure they align with the charity's goals.

Trustees should have a valid reason for not seeking advice, such as sufficient in-house expertise or low-value investments. An investment manager will primarily be responsible for monitoring and reviewing investments to ensure they align with the charity's goals.

5. Effectiveness

It is key that the board has confidence in the delegated oversight and the underlying processes are effective.

Charity trustees often lack investment expertise or experience, so it's crucial they're confident that those responsible for investment decisions have the right skills and knowledge.

The level of this oversight should match the size and complexity of the investments, giving trustees the confidence to ask questions and challenge decisions. Investments should be given dedicated time for discussion at trustee meetings.

6. Equity, diversity and inclusion

The board ensures that all those involved in the charity's investments are committed to understanding and actioning equity, diversity and inclusion.

Including diverse perspectives and viewpoints in investment decisions can lead to better outcomes, while a lack of diversity can result in groupthink and weaker decision-making.

Meetings encourage broad discussion with equity, diversity and inclusion built into topics of discussion when talking about investments. This can consist of areas such as responsible investment, social investment, addressing the climate crisis, or the origin of the charity's assets.

7. Openness and accountability

Building trust through openness and accountability helps all charities deliver their public benefit.

Charities should clearly disclose their investment policies in annual reports or websites, and the board should consider how these decisions might affect their reputation among stakeholders and the public.

The annual report should include how the investments have performed over the year and what is included in the investment policy. Typically, the charity's main investment adviser is named.

Alongside required accounting information, a charity should include why it invests, how it furthers its purposes, what its governance structure is and its mechanisms for addressing any conflicts or risks.

Take advice!

These principles provide a strong framework for investing, but it's essential to discuss them with an experienced investment manager who specialises in charitable investments and is aware of the CIGPs.

RBC Brewin Dolphin, as one of the UK's largest bespoke charity investment managers, has a team of over 50 charity specialists working with over 1,700 charity clients across the UK. Their expertise can help charities adopt these CIGPs.

If you're interested in learning more, please visit Brewin Dolphin's **Charities investment management page** or email: **charities@brewin.co.uk**

The value of investments, and any income from them, can fall and you may get back less than you invested. This does not constitute tax or legal advice. Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. You should always check the tax implications with an accountant or tax specialist. Information is provided only as an example and is not a recommendation to pursue a particular strategy.

Jeffrey Ball
Charity Investment Manager
RBC Brewin Dolphin

Philanthropic investment: unlocking potential

Philanthropy and generosity have long been essential to societal support, providing crucial resources to people, charities and social enterprises, bringing joy to those who care and give. In the UK, the landscape of philanthropy is evolving, with high-net-worth individuals (HNWIs) playing a pivotal role. Michael Fitch, managing partner in our Belfast office, explores the current state of philanthropy, the barriers to giving and next steps for philanthropic investors (donors) and charities.

The current state of philanthropy

Research commissioned by the Charities Aid Foundation (CAF) from Altrata, the owners of Wealth-X and experts in the behaviours and attitudes of wealthy individuals, provides interesting insights into the giving behaviour of the UK's HNWIs. According to the research, around 1% of adults in the UK (536,673 people) are HNWIs, possessing at least £1m in investable assets, excluding their main property and pension funds. Within this group, one in ten are very-high-net-worth (VHNW), holding between £5m and £30m in investable assets, and 1% are ultra-high-net-worth (UHNW), with at least £30m in investable assets. In 2023, HNWIs in the UK donated an estimated £7.96 billion, equivalent to 0.4% of their investable assets. This is in addition to the £13.9 billion given by the general population.

Despite these significant contributions, there remains untapped potential. The CAF report, High Value Giving: How the UK's Wealthy Give (2025), suggests that if all HNWIs donated just 1% of their investable assets, they would collectively give an estimated £19.9bn. This would mean an extra £12bn to charities from HNWIs.

Moreover, research by Pro Bono Economics (PBE) in 2024 revealed wealthy Britons (with at least £100k in investable assets) could donate an additional £2.8bn annually, potentially halving the UK's giving gap compared to New Zealand and Canada. Survey data from Opinium showed 56% of wealthy donors believe they could give more, with one-in-six saying they could double their donations.

A key factor in unlocking this untapped potential is financial guidance. Previous work carried out by PBE found that simply raising the prospect of charitable giving within a financial advice conversation increases subsequent donations by an average of 40%. Yet, while around half of the nation's wealthy access financial advice in some form or other, just 8% receive guidance on their philanthropic investment strategy.

Barriers to giving for HNWIs

As well as the need for more people to obtain better tailored philanthropic investment advice, there are several barriers preventing HNWIs from maximising their philanthropic investments. This includes concerns about how charities are managed, uncertainty about the impact of their investment and a lack of knowledge or experience with the sector. Philanthropy can often feel like a lonely endeavour, with personal finances and giving being sensitive topics.

Encouraging philanthropic investment

One effective tool for facilitating philanthropic investment is the donor-advised fund (DAF). These funds provide donors with the flexibility to develop their philanthropic vision, allowing contributions as frequently as desired and the option to recommend grants to charities of choice over time. Importantly, DAFs also offer tax and administrative benefits, making it easier for individuals and businesses to donate money and assets efficiently.

The growing demand for such funds, particularly among younger investors, highlights the potential to expand philanthropic investment. Financial and tax advisers are uniquely positioned to bridge the gap here between potential and actual giving. By proactively discussing philanthropy in financial advice conversations, advisers can help potential donors navigate the complexities of charitable giving and align their priorities with causes they care about, for example in health, medical research, children's organisations and poverty alleviation.

Proactive steps to maximise philanthropic investment

Philanthropy in the UK is at a crossroads. While the contributions of HNWIs are substantial, significant untapped potential remains. By addressing the barriers to giving and enhancing the advice HNWIs receive from financial and tax advisers, the UK could unlock billions in additional philanthropic investment. Here are a few helpful next steps:

For philanthropic investors (donors)

- **Embrace the joy of giving:** Not everyone with a gift of wealth creation knows how to enjoy and give away wealth. Learn new skills to enjoy and give away your wealth as part of your wider financial planning.
- **Think strategically about your giving:** Discuss this issue with your family and friends. Identify the changes you want to see and invest in how this change will be realised.
- **Build relationships with charity leaders:** Get to know charity leaders who share your passion for change.
- **Choose the best structure for your giving:** Consult with professionals – your accountant lawyer and wealth manager – to ensure your giving structure aligns with your philanthropic investment goals. Consider using a DAF to grow your charitable contributions and explore donating non-cash assets.
- **Maximise tax benefits:** Seek advice on the many tax benefits of philanthropic investment to enhance the effectiveness of your giving.

For charities

- **Get to know your philanthropic investors:** Understand donor preferences, family setup, privacy concerns and areas of interest to build meaningful relationships. Work with donors as investors, maintaining excellent communication.
- **Build trust:** Implement strong governance practices to assure donors of your charity's integrity and effectiveness.
- **Develop strategies for corporate philanthropic investors:** Consider environmental, social and governance (ESG) strategies for corporates. See **page 10** for more on developing ESG strategies.
- **Keep track of giving trends:** Use annual reports and philanthropy network insights to stay updated on trends in high-net-worth giving and the causes donors care about.
- **Understand the solutions available to philanthropic investors:** Familiarise yourself with the mechanisms donors use to structure their giving and determine if your charity can accept non-cash assets or whether you need to work with organisations providing donor advised funds.

By taking these steps, both donors and charities can work together to unlock the full potential of philanthropic investment in the UK. Whether you're a charity seeking guidance on governance or a philanthropic investor looking to maximise the impact of your giving, we have a wealth of experience to share and would welcome the opportunity to discuss how we can support you.

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The challenges of accounting for legacy income

Legacy income represents a key source of funds for many UK charities. The 2024 Smee & Ford Legacy Trends Report estimates that the sector benefited from £3.9bn of donations left to charities in Wills in 2023. This amount reflects a 3.2% increase from 2022. Additionally, 38,178 charitable estates were recorded in Wills in 2023, the highest number since tracking began in 2012.

With legacy income representing such a significant source of funds, it is critical to ensure its accurate and consistent accounting treatment. However, legacy income can be a notoriously challenging area of charity accounting.

Recognition criteria for legacy income

In the UK, all charities preparing accounts under the accrual basis must follow the Charities Statement of Recommended Practice (SORP) when accounting for income, including legacy income. Under the SORP, legacy income should be recognised in the charity's accounts when the following criteria are met:

Entitlement: The charity must be entitled to the income. This is typically established when:

- the charity has been informed of its legacy, and
- there is evidence that the estate will be able to pay the legacy.

Probable: The receipt of the legacy income must be probable. This means that there is a reasonable expectation that the charity will receive the income. Typically, this becomes more certain once probate has been granted and sufficient assets are confirmed to exist to meet the bequest.

Measurement: The legacy must be capable of reliable measurement. This includes:

- knowing the value of the legacy or being able to make a reasonable estimate of it, and
- adjusting for any liabilities or costs associated with the estate.

Uncertainty and judgement

In practice, applying the criteria is often very difficult due to the sheer number of potential uncertainties. A range of challenges can arise, including delays in being informed of the legacy, difficulties establishing an estimate of the value of the estate and complications associated with specific sums versus residuary interests in the estate. The probate process itself can be lengthy and complex, often requiring the sale of property or realisation of assets before any distribution is possible. These complexities arise even before considering further factors such as restrictions, endowments and so on

For larger charities, who are likely to have numerous legacies to assess at various stages of the probate process, these challenges become even more pronounced.

The subjectivity and level of judgement involved can lead to significant variations in how legacy income is accounted for. For instance, a cautious charity might disclose a contingent asset, whereas another may recognise the legacy income and debtor on their balance sheet in the same situation.

This has led to calls for the next version of the Charity SORP to provide clearer guidance and instruction, particularly around the recognition of legacy income. The current SORP consultation, which runs until June 2025, includes proposals aimed at addressing these concerns. It is hoped that the finalised SORP will offer improved clarity and promote greater consistency in how legacy income is recognised across the sector.

Addressing the challenges

Although undoubtedly one of the more challenging aspects of charity accounting, there are various practical steps you can take to manage legacy income more effectively:

Establish a policy: Developing a clear and consistent policy for recognising legacy income is essential. In establishing a policy, and applying it consistently, trustees and senior management can provide clarity in how the SORP criteria will be practically applied. This should be consistent with the SORP but will help simplify and standardise the process, removing a good deal of the subjectivity. The policy should also be set out in your financial statement as a key source of estimation uncertainty and area of judgement.

Maintain a legacy register: Keeping a detailed record of all known legacies, and tracking the stages from notification to receipt, will help with monitoring and forecasting. Key details such as the deceased's name, estate executors, estimated value and expected payment dates should be documented.

Communicate with executors: Regular and clear communication with the estate executors is vital. This will help you stay informed of the probate process, asset realisation and any potential changes to the value of the legacy. Building relationships with executors can also help mitigate potential delays.

Accounting for legacy income is a challenging area that requires careful attention to detail and accurate financial reporting to maintain stakeholder confidence. If you would like to discuss your legacy income accounting practices with us, please contact your usual UHY adviser or get in touch with one of the experts listed on **page 48** of this Outlook.

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Choosing the right accounting software: when, why and how to make the move

In recent years, many charities have turned to digital accounting solutions to enhance financial management. However, making the transition to a new system is a significant decision. In this article our national Head of Cloud Accounting, Rebecca Roberts, explores why your charity may need to change its accounting system, key concerns that can hinder a transition and the considerations to keep in mind when making the switch.

Is it time for a change?

It is common for charities to outgrow their accounting systems as operations evolve. You may be facing inefficiencies, or your current system may no longer meet your charity's needs, making an upgrade necessary.

One key reason for change is increased complexity. As a charity grows, financial transactions usually become more intricate, revenue streams more complex and existing software may lack the necessary functionality to manage restricted and unrestricted funds effectively. Without the right tools, financial oversight can become cumbersome and prone to errors.

Another critical factor is often around reporting capabilities. Traditional accounting solutions tend not to provide real-time insights, making it difficult to track funding streams and expenditure with accuracy.

Integration challenges can also arise where multiple platforms are being used for areas such as donor management, payroll and grant tracking. If your existing system struggles to integrate these functions efficiently, it can lead to data inconsistencies and additional administrative burden.

Critically, outdated software can also pose compliance and security risks. Older systems may fail to meet current standards, potentially putting you at risk of non-compliance, and inadequate security features can expose sensitive financial data, making the need for a new system a necessity.

Fraud is also an increasing concern for charities, with financial controls becoming more important than ever. Many organisations are now seeking software solutions that enhance security measures. For example, we've seen growing interest in a Xero add-on that allows for multi-step invoice approval based on value or type. Implementing such controls can significantly reduce the risk of fraudulent transactions, providing a robust safeguard against financial mismanagement.

When is the right time to move?

Recognising the need for a change is one thing, but timing is crucial when making the transition. Choosing the right moment helps ensure a smooth implementation and minimises disruption.

One clear sign that it's time to move is when current processes become inefficient. If your finance team relies heavily on manual intervention, leading to frequent errors and wasted time, it is time for an upgraded system to automate tasks and improve accuracy.

Another key indicator is when financial visibility is lacking. If it is a struggle to manage budgets or forecast future funding due to limited reporting capabilities, a more advanced system is needed to provide better insights and support strategic decision-making.

Scalability is also crucial. A new system should be able to support your future evolution, whether that is for increased transactions, new funding streams or simply evolving operational needs. If your current system can no longer keep up, it may be time to transition to a new solution. Having an accounting system that supports enhanced financial controls – such as multi-step approvals for payments - can provide an essential layer of protection against financial mismanagement and fraud.

Key concerns

We have seen many charities hesitate to switch systems, primarily due to cost and resource constraints. Transitioning requires an upfront investment – not just financially but also in terms of time for training and implementation. For organisations operating on tight budgets, this can feel like a significant barrier. Yet, investment in upgrading your systems can improve financial resilience, strengthen fraud prevention and, ultimately, save both time and money in the long run.

Another major concern we see is a fear around data migration risks. Moving financial data from one system to another can be complex, with the potential for data loss or inaccuracies if not managed properly. However, robust data management strategies and, if necessary, external expertise can help ensure a smooth transition.

A poorly managed transition can also disrupt day-to-day operations and compromise financial reporting accuracy.

Our top five tips to ensure a smooth transition

To ensure a smooth process, consider the following factors:

1. **Comprehensive planning**

   Conduct a thorough assessment of financial needs, software requirements and potential risks before making the switch. We have supported many clients with this process.

2. **Engaging key stakeholders**

   Involving finance teams, trustees and relevant staff members in decision-making ensures buy-in and a smoother transition.

3. **Choose the right software**

   The selected system should align with your charity's size, complexity and financial management needs. Any system you choose should be able to grow with your evolving operational needs. Our specialists can assess your current data and processes to recommend the most suitable software and integrations.

4. **Data migration strategy**

   Ensure a structured approach to transferring financial data, with rigorous checks to prevent inaccuracies. We can fully manage the transfer, ensuring that no data is lost and minimising downtime and disruption.

5. **Training and ongoing support**

   Once a new system is in place, adequate training must be provided to ensure teams can use the software effectively and minimise errors. We offer bespoke training modules, tailored to the level of management reporting and bookkeeping you require.

The next steps

With the right preparation and support, the benefits of a new system can far outweigh the initial challenges, positioning your charity for long-term success.

If you'd like to discover more, please contact Rebecca Roberts, national head of cloud accounting at UHY Hacker Young, or reach out to any of our specialists listed on **page 48** of this Outlook.

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UHY has been an excellent partner, going beyond our audit requirements to provide additional services such as supporting us through changing our accounting systems and advising on improving our investment and asset tracking processes.

The team's responsiveness and ability to deliver clear, insightful answers to our queries have significantly enhanced our financial systems. UHY's ongoing availability and support beyond the typical audit touchpoints have been invaluable to us.

Jenny Couper
Director of Finance and Resources
Cripplegate Foundation

The Employment Rights Bill: what it means for charities

The much-anticipated Employment Rights Bill, published on 10 October 2024, marks a significant shift in UK employment law. Touted as the biggest upgrade to workers' rights in a generation, the Bill introduces sweeping reforms that will have major implications for employers, including charities.

In this guest article, Kathleen Heycock, Partner, and Amy Wren, Senior Counsel, from leading law firm, Farrer & Co, provide an expert analysis of the key provisions, outlining what you need to know and how you can prepare for the changes ahead.

At 300 pages and containing over 30 employment measures, the scope of the new Employment Rights Bill should not be underestimated. Much of what it is proposing is ambitious and will represent a marked shift from existing practices. That is not to say it provides all the answers; much of the detail has been left to consultation and secondary legislation. Change will also take time – the Government expects to begin consulting on reforms in 2025 and anticipates that the majority of changes will take effect no earlier than 2026, following a 'substantial' transition period. It is safe to say that these reforms will remain a central talking point in employment circles for some time to come.

The aim behind Labour's employment changes is to improve worker protections, job security and working conditions. Coming at the same time as increases to employers' National Insurance Contributions and the National Minimum Wage, for charities these reforms may lead to increased administrative and operational costs, necessitating careful planning to balance new compliance requirements with the charitable missions they serve.

Unfair dismissal

Current position

Employees must have at least two years' service to bring a claim for unfair dismissal (subject to a few exceptions where dismissal is deemed automatically unfair). There are no specific statutory restrictions on the length or terms of probationary periods, which tend to be governed by an individual's contract of employment. Only employees have the right not to be unfairly dismissed; workers cannot bring an unfair dismissal claim.

What is planned?

One of Labour's flagship employment manifesto pledges was to make unfair dismissal a day one right. The Employment Rights Bill delivers on this by removing the qualifying period for unfair dismissal protection altogether.

However, there are caveats:

- The Government intends to legislate to 'introduce fair and proportionate processes for dismissal' during probationary periods.
- Quite what that process will look like is still unclear, though in the Next Steps document the Government indicates it will introduce 'a lighter-touch and less onerous approach for businesses to follow to dismiss someone who is not right for the job'. As a starting point, it suggests holding a meeting with the employee to explain performance concerns (at which the employee could be represented).
- The Government intends to undertake extensive consultation on the details of this proposal, including on:
    - The length of the statutory probationary period, indicating a preference for nine months.
    - What 'meaningful safeguards; should be put in place during that time.
    - How any process might interact with the Acas Code of Practice on disciplinary and grievance procedures.
    - What compensation should be available for a successful claim for dismissal during the probation period, with a suggestion it should not be as high as the current compensatory levels.

It is also confirmed that the new unfair dismissal protection will not apply to:

- Employees who have not yet started work.
- Despite a suggestion in the King's Speech that protection from unfair dismissal would be available 'for all workers', under the Bill it will be available for employees only (the Government has confirmed a review of worker status will be a longer-term aim).

Although this will be a significant change for employers, it is not one which will happen quickly. The Government is very clear that 'reforms of unfair dismissal will take effect no sooner than autumn 2026' in order to ensure sufficient time for detailed rules to be confirmed and for employers to prepare. Although the two-year qualifying period will continue to apply in the meantime, in reality it may start to erode from now onwards, meaning people recruited over the next two years will increasingly have shorter to wait before being protected from unfair dismissal. Charities could therefore start laying the groundwork for the anticipated changes, including by reviewing recruitment procedures to ensure robust processes are in place before someone joins, setting clear performance expectations at the start of employment, and training for managers on effective management of probationary periods.

Employment tribunal time limits

Current position

For the majority of employment claims, the time limit for bringing a claim in the Employment Tribunal is three months from the date of termination or the date of the act being complained about.

What is planned?

The Government intends to double the time limit for bringing all Tribunal claims to six months (which will include discrimination, unfair dismissal and whistleblowing claims to name a few).

This change will provide employees with significantly more time and flexibility to bring an employment claim. Arguably it may also allow both parties greater opportunity to explore internal procedures and resolution without quite the same time pressure as there is now. However, when viewed alongside the removal of the unfair dismissal qualifying period, it is also likely that we will see increased uncertainty for employers and a higher number of claims overall.

Fire and rehire

Current position

'Fire and rehire' (also known as dismissal and re-engagement) refers to the practice where an employer dismisses an employee and offers to re-engage them on new, often less favourable, contractual terms.

Despite controversy over the practice, the Conservative Government resisted calls for an outright ban of fire and rehire and instead put in place a Statutory Code of Practice on dismissal and re-engagement. This provides that fire and rehire should only be used as a last resort, following an exploration of alternatives and in consultation with staff representatives. Employment tribunals have the power to increase compensation by up to 25% if an employer unreasonably fails to follow the Code of Practice.

What is planned?

In perhaps the most fundamental and radical change in the Employment Rights Bill, the Government is pushing ahead with its plan to end fire and rehire (and fire and replace). The Bill will make it automatically unfair to dismiss an employee if the principal reason for the dismissal is either:

- The employer sought to vary the employee's contract of employment, and the employee did not agree to the variation; or
- To enable the employer to re-engage the employee, or employ another person, under a varied contract of employment to perform substantially the same duties as the employee did before being dismissed.

The Bill does provide an exception to this, if an employer can show:

- the reason for the variation was to prevent or significantly reduce financial difficulties
- the financial difficulties were affecting the employer's ability to carry on the business as a going concern, or
- in all the circumstances the employer could not reasonably have avoided the need to make the variation.

In determining fairness, the Employment Tribunal must consider whether any consultation was carried out about varying the contract and if anything was offered to the employee by the employer in return for agreeing to the variation.

This appears to be a high bar for employers to meet. As it makes clear in its Next Steps document, the Government is serious about ensuring fire and rehire will only be available where there is 'genuinely no alternative'. As drafted, these provisions are likely to have extensive ramifications for employers seeking to restructure or change contractual terms.

Collective consultation

Current position

The obligation to collectively consult is triggered when an employer proposes to dismiss 20 or more employees as redundant within a period of 90 days. The number of dismissals is currently calculated based on dismissals proposed 'at one establishment'.

What is planned?

The Government also seeks to curb the misuse of fire and rehire by strengthening the collective redundancy framework. It plans to do this in several ways:

- Where an employer is proposing to dismiss as redundant employees from more than one establishment, the Government will introduce a new 'threshold number of employees' at which the duty to collectively consult will be triggered. This number will be confirmed in future regulations, but will not be less than 20. This proposal could have a particular impact on charities with multiple offices or locations. For example, dismissals at one location that would be under the threshold for collective consultation under current rules, could instead become subject to collective consultation if there are dismissals at other locations which take effect during the same 90-day period.
- It will increase the maximum protective award from 90 days to 180 days. By doubling the penalty, the Government aims to stop it being financially beneficial for employers to 'buy-out' employees' rights. This change means that the Employment Tribunal's power to uplift compensation by up to 25% if an employer fails to comply with the Code of Practice on Dismissal and Reengagement could be worth up to an additional 45 days' pay.

The Government has confirmed it will not go ahead with its proposal to introduce interim relief as a remedy for failure to comply with collective consultation obligations.

Harassment

Current position

On 26 October 2024, the new duty for employers to take **reasonable steps to prevent sexual harassment in the workplace** came into effect. Although the ECHR is clear that the preventative duty extends to sexual harassment by third parties, employers are not liable for third party harassment under the Equality Act 2010.

What is planned?

The Employment Rights Bill introduces a number of notable changes to harassment under the Equality Act:

- Employers will be placed under an obligation to take all reasonable steps to prevent sexual harassment. The Bill opens the door for the Government to publish regulations specifying what steps will be regarded as 'reasonable'.
- It introduces liability for third party harassment on employers, including an obligation to take all reasonable steps to prevent it. Third party is defined broadly as anyone who is not the employer or an employee of the employer (so could include, for example, parents of pupils).
- A disclosure about sexual harassment will become a 'protected disclosure', entitling anyone who makes it to protection under the current whistleblowing regime.

These proposals make it particularly important for charities to ensure full compliance with the new preventative duty which came into effect on 26 October. More information on practical steps charities can take can be found here: **Final EHRC guidance on preventing sexual harassment at work**.

Zero-hours contracts

Current position

A zero-hours contract is a type of ad hoc employment agreement where no minimum hours are guaranteed, and typically a worker is not required to accept any hours offered. Since 2015, employers have not been allowed to include exclusivity clauses in zero-hours contracts.

What is planned?

In the King's Speech, the Government committed to 'banning exploitative zero-hours contracts'. While the Bill does not go as far as an outright ban, nor is there any reference to 'exploitative', what it does do is:

- Require employers to offer guaranteed hours to zero-hours workers, agency workers and workers on 'low' guaranteed hours who regularly work more than those hours. The provisions in the Bill relating to guaranteed hours are detailed and complicated but, in summary, guaranteed hours should reflect the hours someone regularly works over a reference period, and employers should set out details of the days and times when they will make work available for the worker. Subsequent review periods will provide parties with the opportunity to reflect upon changes over time.
- Give workers the right to reasonable notice if they are required to work a shift, or if a shift is cancelled or changed. Compensation will be payable for any shifts which are cancelled or curtailed at short notice. We don't currently have any information about what will amount to 'reasonable' notice or 'proportionate' compensation.

Specific details about how this will operate in practice will be subject to consultation and secondary legislation.

There has been much concern about the impact of this reform on employers who rely on the flexibility of zero-hour contracts, such as those with seasonal or fluctuating levels of work (for charities that might include event and fundraising staff, outreach roles, retail or hospitality staff or other project-based workers). In its Next Steps document, the Government confirms that 'where work is genuinely temporary, there will be no expectation on employers to offer permanent contracts'. Employers will also not be under an obligation to offer guaranteed hours if a worker's contract terminates before the end of the relevant reference period. Recent amendments to the Bill provide for these provisions to be excluded by a collective agreement with a trade union. Moreover, workers who wish to remain on zero-hours contracts will continue to be able to do so. Whether this is enough to alleviate concerns in not-for-profit organisations will have to be seen.

Flexible working

Current position

Since April 2024, the right to request flexible working has been a day one right for all employees, irrespective of their length of service. Employers must respond to requests within two months and must consult with employees before refusing a request.

What is planned?

The Government promised in the King's Speech to make 'flexible working the default from day-one for all workers'. While the Employment Rights Bill will place additional obligations on employers when dealing with requests, the changes do not appear to go as far as the Government's rhetoric had originally suggested and are limited to the following:

- Employers will only be able refuse an application if it 'reasonable' to do so.
- In notifying an employee that their request has been refused, employers will also need to state the ground(s) relied upon and explain why they consider it reasonable to refuse the application on that ground(s).

In contrast, the following is not changing:

- The eight statutory reasons for refusal will remain the same.
- The right to request flexible working will continue to apply to employees only, not workers (the wording in the King's Speech seemed to suggest otherwise).
- The compensation for failing to comply with the statutory provision remains a maximum of eight weeks' pay (subject to the statutory cap: currently £700 per week).

The flexible working regime has often been described as a 'right to request' only and has been criticised for lacking teeth. It remains to be seen whether these reforms will change that and, as the Government hopes, 'ensure more requests are agreed'. Indeed, the immediate reaction from campaign groups is that the new provisions are '**weak and disappointing**'.

Other provisions in the Employment Rights Bill

- **Trade Union reform:** During its time in office, the Conservative Government implemented several legislative measures to restrict the powers and activities of trade unions. The Government intends to reverse this. The Employment Rights Bill will update trade union legislation to remove restrictions on union activity, introduce a process for requesting access to the workplace and require written particulars to include a statement that a worker has the right to join a trade union. Alongside the Bill, the Government intends to consult on measures to update and reform the legislative framework that underpins trade unions.
- **Statutory Sick Pay (SSP):** Currently, employees are only entitled to SSP from the fourth day of sickness and if they meet the lower earnings threshold (currently at least £123 per week). The Employment Rights Bill removes both the waiting period for SSP and the earnings limit, meaning all workers will be entitled to SSP from their first day of illness. For individuals earning less than the lower earnings threshold, SSP will be calculated at 80% of their normal weekly earnings, instead of the flat weekly rate. This rate will apply where 80% of a worker's normal weekly earnings is less than the flat rate.
- **Parental and paternity leave**: The Employment Rights Bill will remove the qualifying service requirement for paternity leave (currently 26 weeks) and unpaid parental leave (currently one year). Both will become day one rights.
- **Bereavement leave:** Current provisions on parental bereavement leave will be extended beyond parents to create a general right to bereavement leave. It will be confirmed in later regulations what conditions about relationship will apply to this leave. It has recently been reported that the Government plans to extend bereavement leave and pay to employees who experience pre-24-week pregnancy loss. Leave will remain as two weeks following the death of a child and will be one week for any other bereavement.
- **Maternity protection:** Additional protection is currently given to pregnant women and those on or returning from extended family leave in a redundancy situation. The Bill will strengthen protections for pregnant women and new mothers. In the Next Steps document, the Government indicates it intends to make it unlawful to dismiss a pregnant worker within six months of their return to work, except in specific circumstances.
- **Equality action plans:** Large employers (with 250 or more employees) will be required to produce action plans on matters relating to gender equality, including addressing their gender pay gaps and supporting employees through the menopause.

Wider reforms outside the Employment Rights Bill

Not all of Labour's Manifesto promises have made their way into the Employment Rights Bill. However, the Government has reiterated its commitment to implementing additional reforms through alternative routes, acknowledging that some reforms may take longer to undertake. These include:

- Taking forward the Right to Switch Off through a statutory Code of Practice.
- Delivery of the Equality (Race and Disability) Bill, extending pay gap reporting to ethnicity and disability for large employers. A consultation on how to implement mandatory pay gap reporting for large employers has been published and can be found **here**.
- A full review of the parental leave system and of carer's leave.
- Consultation on a simpler framework for employment status, including moving to a single 'worker' status which is differentiated from the genuinely self-employed.
- A call for evidence on issues relating to TUPE regulations.
- Consultation with Acas on enabling employees to collectively raise grievances.

Just the beginning

Of course, a bill is only legislation in draft form, and as such represents the very start of the legislative process. The Employment Rights Bill must now be scrutinised by both Houses of Parliament, who will have the opportunity to propose amendments to the drafting. Only once both Houses have agreed the final content of the bill will it receive Royal Assent and become law.

The Bill is also only part of the picture. Further detail about many of the policies has been left to secondary legislation and, in some cases, codes of practice. Proposals will also be subject to what the Government itself describes as 'extensive' consultation.

What is clear is that the Employment Rights Bill is just the beginning of a period of significant upheaval for employment law and employment practitioners, though where we might end up in several years' time may look very different from the draft Bill that has just been published.

This publication is a general summary of the law. It should not replace legal advice tailored to your specific circumstances.

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Our national charity in focus: Dementia UK on innovation and impact

Each year, UHY Hacker Young pledges our support to a national charity, decided through a collective vote spanning our teams across our 20 offices. For 2024/26, we are delighted to partner with Dementia UK, championing their exemplary efforts to support individuals and families facing dementia. Having a national charity forms an integral part of our commitment to helping people prosper and it has been amazing to experience firsthand the incomparable work and efforts of Dementia UK.

We recently sat down with Dementia UK's Head of Digital Service Delivery and Dementia at Work, Victoria Lyons, to delve into the heart of the charity, discussing the impact it has on families across the country, how it is adapting in the digital world, and so much more.

Can you share a bit about your background and what led you to join Dementia UK?

Two of my grandparents lived with dementia, so I had firsthand knowledge and experience of the impact the condition can have on families. When I qualified as a nurse in 2001, I knew I wanted to work in dementia, and working as an Admiral Nurse sounded like the perfect role. It allowed me to support families, develop awareness, increase knowledge and help to deliver services to help ensure other families did not struggle the way mine had previously.

I became an Admiral Nurse in 2003; Dementia UK had under 30 Admiral Nurses at the time. I think I was around the 26th Admiral Nurse – we now have over 450.

I'm currently the main carer for my mother-in-law who is living with dementia, and my two children (11 and 14), so I am a sandwich carer. As I work full-time, I am also a working carer. This provides me with a unique combination of knowledge, skill and lived experience, which, in turn, helps me to deliver services with complete understanding and empathy.

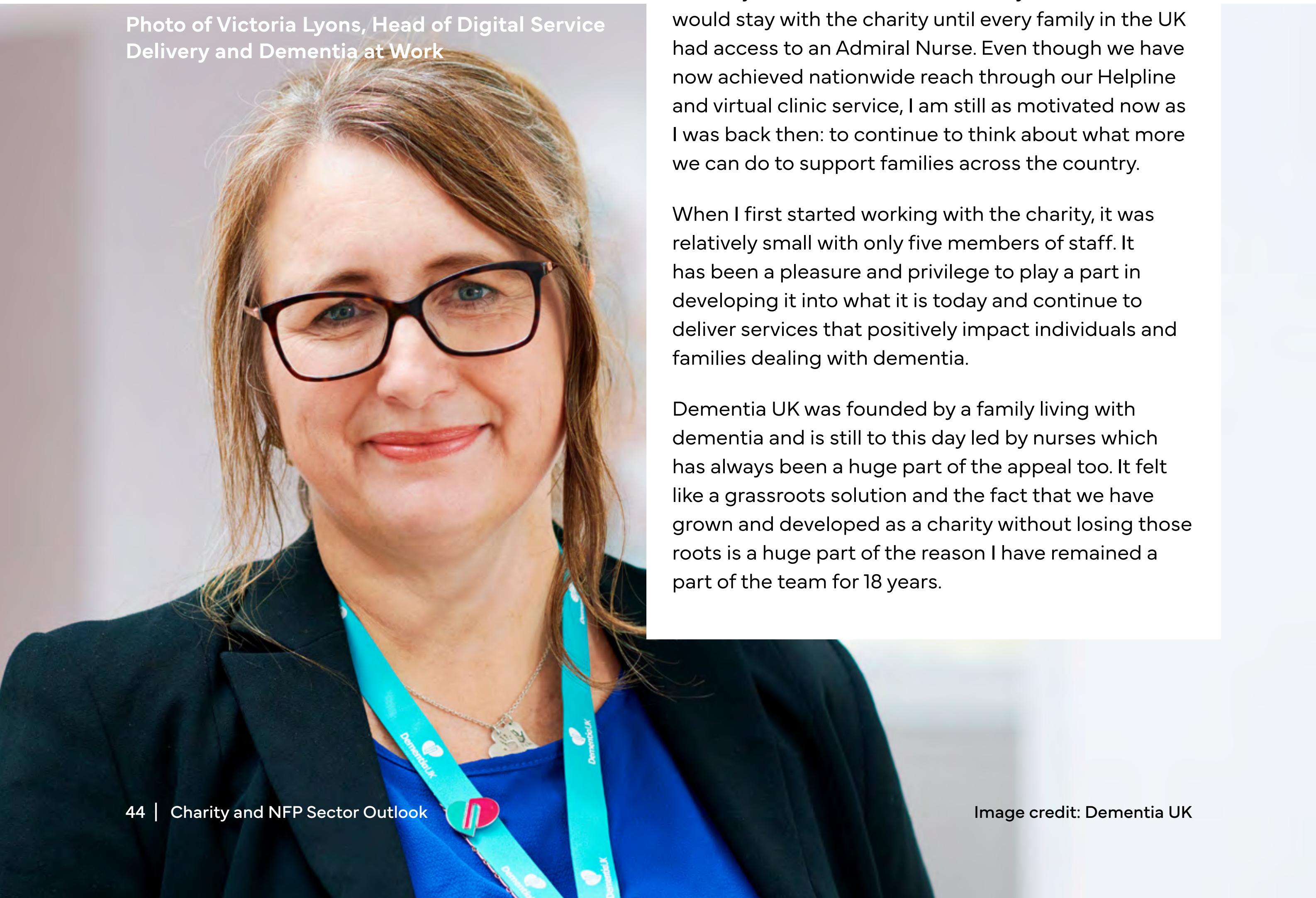

Photo of Victoria Lyons, Head of Digital Service Delivery and Dementia at Work

What attracted you to the charity sector, and specifically to Dementia UK?

I have always been driven to push for change when change is needed, and when I first qualified as a nurse, I felt passionate about the need to develop and improve dementia care.

When I joined Dementia UK, I told my mother that I would stay with the charity until every family in the UK had access to an Admiral Nurse. Even though we have now achieved nationwide reach through our Helpline and virtual clinic service, I am still as motivated now as I was back then: to continue to think about what more we can do to support families across the country.

When I first started working with the charity, it was relatively small with only five members of staff. It has been a pleasure and privilege to play a part in developing it into what it is today and continue to deliver services that positively impact individuals and families dealing with dementia.

Dementia UK was founded by a family living with dementia and is still to this day led by nurses which has always been a huge part of the appeal too. It felt like a grassroots solution and the fact that we have grown and developed as a charity without losing those roots is a huge part of the reason I have remained a part of the team for 18 years.

Image credit: Dementia UK

The digital landscape is evolving rapidly — how has Dementia UK adapted its digital services to better support families and professionals? Are there any innovations you are particularly proud of?

I am very proud of the online content we are creating, our website, and the videos and resources we put out. These days, people spend more and more time online, and it is essential that our services and support are available and accessible where the people we are trying to support are.

What impact has Gen X had on how you approach your digital services, and how do you tailor digital support for different generations?

We're really mindful that different generations have different comfort levels and expectations when it comes to digital support. Gen X has played a big part in shaping how we design and deliver our services.

Our virtual clinic system allows people to book an appointment with an Admiral Nurse at a time that suits them. They can also have that appointment face to face (albeit online) or via phone, which means we can support people in places where we might not have a local Admiral Nurse service.

How do you balance the need for human connection in dementia care with the growing reliance on digital solutions?

It's essential that the human is always in the loop. By that, I mean all the digital services and content we create are based on real stories, real experiences and involve our dementia specialist Admiral Nurses.

Our LEAP (Lived Experience Advisory Panel) and LEAN (Lived Experience Advisory Network) groups are heavily involved in the work we do to ensure the charity bases its offering on real insights from real people. So, whilst digital developments might help us to generate work or support more people, the people we are serving moderate the work, help develop the work and steer and guide the developments

Has AI or automation played a role in enhancing the charity's digital support services? If so, how?

AI and automation are starting to play a bigger role in how we think about delivering support at Dementia UK. In some of our teams, we're exploring how AI can help us work more efficiently and make the best use of our resources, whether that's through automating routine tasks or using smart systems to guide people to the right support faster. It's about freeing up more time for our Admiral Nurses to do what they do best: offering compassionate, specialist care to the families who need them.

We're also looking ahead and thinking carefully about how AI could shape the future of dementia support. There's huge potential, but we're equally focused on the ethics: how we use these technologies responsibly and make sure we never lose the human touch. Keeping the human connection involved is really important to us. No matter how advanced the tools become, our goal is always to use them in a way that enhances relationships, builds trust and makes our support feel even more personal and accessible.

Has the cost-of-living crisis impacted donations or demand for services? How are you adapting to these challenges?

We've had a number of calls to our Helpline from carers talking about the impact that the cost-of-living crisis has had on them. From carers worried about how they are going to pay for the support they need, to working carers expressing concerns about the impact supporting a family member with dementia is having on their ability to meet the demands of holding down a full-time job.

In a recent survey we conducted, 51% of carers told us that they have had to take time off work to care for a family member living with dementia. This is something that carers would feel guilty about doing at any time; however, when budgets are stretched, this need to take time off comes with not only the guilt but the added concern about the impact missing work could have on your employment, and the impact losing your job or leaving work would have on your finances.

Workplace support for those living with dementia or caring for someone with dementia is becoming increasingly important. Can you tell us about Dementia at Work and the impact it has had so far?

Around one million people are living with dementia in the UK today, including over 70,000 with young-onset dementia (where symptoms develop before the age of 65). These statistics suggest that it is highly likely many employers will encounter people who are living with the condition themselves or caring for someone with a diagnosis.

Businesses must understand the impact dementia can have and be equipped to support employees and customers who are affected by the condition. Our 'Dementia at Work' programme offers specialised support and guidance to companies to ensure they can implement effective policies and practices to create a dementia-inclusive environment in the workplace.

The programme has been created and is delivered by Admiral Nurses to support companies and organisations of all sizes. We are also working on an increased range of practical materials and guides to extend our reach.

What are the biggest challenges employers face when supporting staff affected by dementia, and how does Dementia UK help address these?

Many people continue to work after a diagnosis of dementia, which means it's important that employers are set up to support any employees who may be living with the condition, or who are seeking a diagnosis.

When an employee discloses that they are experiencing symptoms or have had a diagnosis of dementia, managers should approach the situation with empathy and care. This will help them feel supported and avoid any misunderstanding or confusion about how their diagnosis may affect their employment.

Employers should be prepared to take five key steps to help people living with dementia in the workplace:

1. Find out about their legal obligations – dementia is classed as a disability, which means that under the 2010 Equality Act, unfairly discriminating against an employee based on their dementia is unlawful.
2. Inform themselves — dementia is a much-misunderstood condition with more than 200 subtypes, so it's important for employers to educate themselves to offer appropriate support.
3. Signpost the employee to support – employers should work with their HR Teams to ensure employees affected by dementia are aware of relevant policies and sources of support.
4. Make 'reasonable adjustments' – these are adaptations to someone's role, working conditions or environment which enable them to continue working.
5. Provide a 'Health Adjustment Passport' – this is a document which the person can fill out to help identify their support needs, ensuring their colleagues and employers know how to support the person with the diagnosis.

For more information on this, visit:
www.dementiauk.org/dementiaatwork

You can also support Dementia UK via our JustGiving page **here**.

Image credit: Dementia UK

Our sector expertise

At UHY, delivering professional services to the charity and not-for-profit sector is one of the core areas we have built our business around. We are committed to sharing best practices and knowledge to support our clients in an increasingly complex and competitive landscape.

Effective financial management has never been more critical and having the right expertise and guidance can make all the difference in ensuring long-term sustainability. We advise over 300 charity and NFP clients across the UK, from local organisations to major national bodies, offering sector-specific insights based on deep experience and long-standing client relationships.

While your primary focus will be on delivering impact for beneficiaries, maintaining robust financial controls and ensuring transparency in public reporting are vital. Our approach is to provide comprehensive charity audit, accounting and taxation services that support financial resilience, allowing you to focus on achieving your core mission. 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.

Whether you need strategic guidance, compliance support or help navigating financial complexities, we are here to support you every step of the way.

Ranked No.1 for overall service levels in the 2024 Charity Finance survey

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.

But don't just take our word for it! Our commitment to exceptional client service was recognised in the results of the latest Charity Finance Audit Survey, where 100% of clients participating awarded UHY full marks for our overall service levels, **placing us first in the magazine's 'Charity auditor awards 2024' shortlist**.

If you would like to find out more about the services we provide to the sector, please visit our **dedicated charities webpage** or get in touch with one of the experts listed to the right.

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