

June | 2021

Charity Insight

In this issue:

The thorny issue of trust

The importance of sustainability for charities

Covid-19 related rent concessions

Staying safe whilst working from home

The Charities Bill



Hawsons

Big firm expertise,
small firm personal attention



Simon Bladen Partner



Introduction

Welcome to the latest edition of our charity newsletter.

Since our previous issue we have entered and exited a third and hopefully final national lockdown. As I write this restrictions are gradually easing as we move ever closer to the slightly later than anticipated 'freedom day' hopefully arriving 19th of July. From an economic viewpoint there are reasons to be optimistic. The UK economy has proved itself to be remarkably resilient in the aftermath of the economic 'heart attack' caused by Covid-19. The charity sector has played its part in this by continuing to provide invaluable support through a combination of innovation and adaptability.

Covid continues to change a great deal about how and where we work, many of these changes will cause a permanent shift in working habits. Charities should be at the forefront of this given the culture of care and support within the sector. One thing is for sure, things will never return to how they were, at least not entirely. Now is the time for trustees to plan for the future.

We hope you enjoy the contents of this newsletter and as ever please do not hesitate to get in touch if you have any questions.



WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK

A member of HLB UK Ltd., which is a member of HLB International. A world-wide network of independent professional accounting firms and business advisers, each of which is a separate and independent legal entity and as such has no liability for the acts and omissions of any other member. HLB International Limited is an English company limited by guarantee which co-ordinates the international activities of the HLB International network but does not provide, supervise or manage professional services to clients. Accordingly, HLB International Limited has no liability for the acts and omissions of any member of the HLB International network, and vice versa.



The thorny issue of trust

In recent years some of the larger charities have often found themselves featuring in negative headlines on an increasingly frequent basis. Unfortunately, it's very easy for charities to all be tarred with the same brush. These negative stories often result in individuals losing faith or becoming less trusting of charities generally – unfair you may rightly say, but how can charities prepare for these sorts of sudden eventualities?

Individuals hold charities to a higher standard

Public trust is key to the success of any charity. One of the key issues charities face is that, rightly or wrongly, the public holds charities to a higher moral and ethical standard than businesses. Individuals that donate often want to know exactly what their money is going towards and how it is going to impact a cause close to their heart. This added emotional connection can have a huge impact on charitable giving when negative headlines about the sector surface.

Communication is key

If and when a negative story does develop it is important that the charity in question responds to the story in a quick and effective manner. History has taught us that attempting to cover up wrongdoings is not only a morally poor choice, but also rarely works. Failing to communicate clearly will only harm public trust more in the long-term. News headlines will often take the situation out of context. One of the most effective ways to regain public trust is to publish

communications that fully explain the details of a situation in context and what the charity is planning to do moving forward to ensure adverse events do not reoccur.

Public trust

Gaining an understanding of public opinion incorporates many factors including background information and current circumstances. The Charity Commission carried out an interesting survey in 2020 which considered the state of the charity sector in the eyes of the general public.

At the beginning of the last decade trust levels in charities were at a mean trust level of 6.6 out of 10. However, in the last five years trust levels began to decrease to 5.7 in 2016 and a low of 5.5 in 2018 before increasing to 6.2 in 2020 ([data from Charity Commission for England and Wales](#)). The [2016 data cited](#) that media coverage affected the majority of people whose trust in charities decreased. This further demonstrates the importance of managing public perception when responding to adverse news stories regarding the sector.



Keep up to date
with our latest news and updates





The importance of sustainability for charities

Introduction

The Oxford English Dictionary describes the term sustainability as; 'able to be maintained at a certain rate or level'.

For a charity, being sustainable involves a great deal of forward planning and preparation for the future. One of the core fundamentals of remaining sustainable for a charity is being able to continue operating when a core element of funding is suddenly removed or something unexpected occurs.

How do I know if my charity is sustainable?

There are many factors that contribute towards sustainability, these can include:

- Diversified funding
- Cashflow and cost control
- Impact, strategy, and planning

Diversified funding

Charities that have an over reliance on one particular source of funding could find themselves vulnerable if that funding is suddenly taken away or significantly reduced. In an ideal world, charities should never have more than 20% of their income from a singular source. This is of course far easier said than done

and it isn't one size fits all, some income streams will always be more robust than others and will have varying levels of control that the charity can exert over them.

If you feel that you are overly reliant on one income source then you should aim to come up with a contingency plan in case this source of funding dries up or is significantly reduced. The more control the charity has the better. The assessment can be covered as part of the risk assessment for the charity to demonstrate that the trustees have considered it. As mentioned above, some funding sources are always going to be at greater risk of being cut at short notice than others.

Continued overleaf



The importance of sustainability for charities (continued)

Cashflow and cost control

Cashflow is normally the largest cause of organisation failure, and for charities the risks are just as high if not properly managed. You should always monitor your cashflow on a regular basis. Implementing a financial plan that is monitored and reviewed regularly will make your cashflow management a far easier task. This should be fluid so that forecasts can be updated for unforeseen eventualities.

It should go without saying that cost control is vitally important and needs to be monitored regularly. If your income unexpectedly falls you will need to find a way to manage associated costs. This could mean making cost-cutting decisions in key areas in order to ensure the charity is not at risk. Always keep in mind that the trustees have a duty to ensure the charitable funds are protected and used for the right reasons.

Impact, strategy, and planning

It is always important to remember why you are part of this charity, what impact do you want it to make? It can be very easy to become distracted by finances but it is important to consider whether your charity is achieving its objectives. Without achieving a tangible impact, it is very unlikely you will be able to sustain a regular income to fund charitable activities in the long term.

In order for your charity to be successful, you will need to have a strategy in place. In your strategy, you should establish what impact you want your charity to have on the particular cause for which it was set up to help. It is just as important to focus on what you will not be doing, as this gives your charity a focus so your team do not get distracted. Don't fall into the trap of spreading the charity too thin and always ensure the primary purpose objectives of the charity, are widely known.

Once you have identified your impact and strategy you can look to create a business plan. The plan should set out how you will implement the strategy. Once again this is a fluid document and should be revisited by trustees and the executive team regularly.

Conclusion

Ensuring you are running a sustainable charity depends on many factors, of which we have only covered a handful. The importance of frequent communication between the executive team and trustees cannot be overstated. Having a clear picture of where the charity is heading and how it will aim to get there whilst planning for unforeseen circumstances will help ensure sustainability and relevance in the long term.



The Financial reporting Council (FRC) has issued amendments to FRS102 and FRS105 - Covid-19-related rent concessions beyond 30 June 2021

To help them through the pandemic, many businesses that lease property have been supported by their landlords and have been granted rent concessions. Before the pandemic, FRS 102 and FRS105 didn't explicitly specify how to account for changes in lease payments resulting from rent concessions. In order to avoid businesses interpreting FRS 102 in different ways, the FRC acted fast and issued an amendment to the standards in October 2020 looking specifically at COVID-19 related rent concessions.

Prior to this amendment, businesses may have looked to treat these rent concessions in the same way as lease incentives, such as rent-free periods at the beginning of a lease, and spread the benefit over the remaining life of the lease.

This amendment changes this treatment. These concessions were specifically to help businesses out during the pandemic period, and are temporary in nature, and so should be recognised in the P&L in the period that the concession is intended to compensate – so effectively you recognise the reduction in the rent charge as it happens.

There are certain conditions to apply this treatment

- the change has to be a reduction in rent
- there has to be no other change to the terms of the lease – otherwise the rent concession could be

- due to those changes rather than just COVID-19 the original amendment only applies to payments which were due on or before 30 June 2021. However, in June 2021, the FRC issued further amendments to the standards, such that the revised requirements now apply to rent concessions that reduce lease payments originally due on or before 30 June 2022.

The revised standards require disclosure of the change in lease payments in the financial statements.

The effective date is periods commencing on or after 1 January 2020, but early application is permitted, and Hawsons would recommend that such early application is adopted.

[Here is a link to a video of our Technical Director Paul Hutchings discussing the revision to the standards.](#)



Keep up to date
with our latest news and updates



Staying safe whilst working from home

For many businesses, working from home (WFH) looks like it is here to stay even after the COVID-19 pandemic is over. Companies are typically looking at a hybrid model where staff split their week between home working and working in the office.

Cybercriminals are as usual quick to exploit any vulnerabilities so it's important to ensure your security is at the appropriate level.

Train your employees on cybersecurity – phishing email and passwords

It is vitally important that all employees are trained on the basics of cybersecurity and this importance can only be emphasised when working from home as additional risks come into play.

Phishing emails are a common technique that cybercriminals use to access your network and steal your data so training your employees on the signs of phishing is very important. It's also worthwhile doing training refreshers on password creation and security, ensuring passwords are both complex and unique. Using passphrases is a good method, for example taking the first letter from the words of songs and adding numbers and special characters.

Use a VPN

A Virtual Private Network (VPN) creates an encrypted tunnel and is essential when working remotely or from home. If you are accessing your network remotely without a VPN you could be leaving yourself vulnerable to cyber threats. Not all VPNs are equal and, especially if you have been using the same VPN method for a long time, it's worth Googling the vulnerabilities of your VPN as well as making sure you are using the most up-to-date version.

Two-factor authentication

Using two-factor authentication is becoming increasingly common. You should look to implement this wherever it is available and ideally on your VPN and webmail. This means an attacker not only has to know your password they also need access to your text messages or authenticator app on your mobile.

Continued overleaf

Staying safe whilst working from home (continued)

Device encryption

Ensure the devices being used at home are encrypted. Windows 10 Pro provides encryption and is likely to be commonplace on work laptops but if staff have taken home desktop PCs then they should also be encrypted to protect data in the event of theft. Make sure you have the decryption keys in case you need to recover data due to a lost password.

Anti-virus

Ensure all machines connecting to your network have regularly updated anti-virus software even if staff are using their own machines. Ideally use the same anti-virus you use at work. Some supplier licenses allow staff to install the software on their home PCs at no extra cost.

Wi-Fi and Network security

When working remotely you should always avoid using public Wi-Fi. Cybercriminals can use an insecure/public connection to plant malware onto the Wi-Fi. If you download or share files once you are on an insecure connection you could be potentially installing malware onto your device. Depending on the type of malware it can be used to steal sensitive business information.

Keep everything on your computer fully updated

It is vitally important that you keep all of your devices up to date as many of the updates will provide new security features to help protect your device against new threats. The easiest way to do this is to enable automatic updates on your device or force updates via automated policies.



The Charities Bill

What is it?

The Charities Bill was drawn up to simplify a number of processes to assist charities needing to consolidate and/or restructure. The Bill will implement the majority of recommendations made by the Law Commission in its report published in 2017. It will do so primarily by making amendments to the Charities Act 2011. It is anticipated that this Bill will deliver cost savings for charities in excess of £28m over a ten-year period.

Main measures of the bill

Governing documents

The amendment mechanisms for incorporated and unincorporated charities are aligned to reduce previous inconsistencies. There is also a new, clearer statutory power for unincorporated charities to amend their governing documents by resolution. Finally, there are more consistent criteria for the Charity Commission to consider before agreeing to a change of purpose for a charity.

Permanent endowment

There is a new definition of permanent endowment along with a new power to borrow from permanent endowment as an alternative to existing rules.

Incorporations and mergers

The Bill has a provision for allowing legacies in wills to

be transferred to a merged charity, reducing the need for 'shell charities'. Corporate charities are automatically given 'trust corporation status' if they administer charitable trusts.

Some other measures

The circumstances in which funds from a failed fundraising appeal can be applied to other purposes of the charity have been expanded as long as there is adequate oversight from the Charity Commission.

In an alignment of the provisions available for the supply of services by trustees, goods can also now be provided to a charity, subject to appropriate safeguards being in place. This creates consistency and will allow charities to access goods on potentially more favourable terms.

Charities will be able to make small ex gratia payments without seeking Charity Commission permission.

The Charity Commission will also be able to ratify a trustee's appointment or election which could potentially be invalid.

Conclusion

It should be noted that these measures apply only to England and Wales. The changes should help streamline processes which will allow trustees to better focus on running their charity whilst also allowing flexibility for strong oversight. We should see a reduction in regulatory pressure and bureaucracy without any impact on the level of governance.

Get in touch



How can we help?

At Hawsons we recognise that not-for-profit organisations have very different requirements from other businesses and are currently exposed to a challenging economic climate.

Our dedicated team fully understands the complex, ever-changing regulatory requirements of the charity and not-for-profit sector. Irrespective of your size we wish to support you to maximise the benefits you could achieve through our specialist professional advice.

Charities & not-for-profit organisations are currently facing extensive changes in their regulatory and legal framework. Given the additional pressures on fundraising, complex tax regimes, internal risk exposure and stakeholder demands, it has never been more important to obtain specialist professional advice.



Simon Bladen
Partner
0114 266 7141
slb@hawsons.co.uk

Sheffield Office
Pegasus House
463A Glossop Road
Sheffield, S10 2QD



Richard Burkimsher
Partner
01604 645 600
richardburkimsher@hawsons.co.uk

Northampton Office
Jubilee House
32 Duncan Close, Moulton Park
Northampton, NN3 6WL



Paul Wormald
Partner
01302 367 262
paw@hawsons.co.uk

Doncaster Office
5 Sidings Court
White Rose Way
Doncaster, DN4 5NU



HLB UK is a member of HLB International. A world-wide network of independent accounting firms and business advisers.



Sheffield: Pegasus House | 463a Glossop Road | S10 2QD

Doncaster: 5 Sidings Court | White Rose Way | DN4 5NU

Northampton: Jubilee House | 32 Duncan Close | Moulton Park | NN36WL

www.hawsons.co.uk