

haysmacintyre

Introduction to Charity Finance and Reporting

20 February 2024

13:30 Regulation and financial governance

Tom Brain, Director, haysmacintyre

13:50 The annual report and accounts

Tom Brain, Director, haysmacintyre

14:30 Break – 15 mins

14:45 Tax considerations

Phil Salmon, Partner, haysmacintyre

15:15 Management information for Trustees

Tom Brain, Director, haysmacintyre

16:15 Q&A





Questions...

**What position do
you hold?**

Type of charity

Size of charity



Regulation and financial governance

Tom Brain

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Trustee responsibilities

Charity Commission CC3 – The Essential Trustee

You and your co-trustees are responsible for your charity's money. Your charity should have effective processes for handling money, to help avoid poor decisions and accidental errors.

You and your co-trustees must comply with statutory accounting and reporting requirements.





Report structures and filing – the basics

Regulation and format of accounts is dependent on the governing instrument and the charity's legal status

- Charitable company
- Unincorporated charity (charitable trust)
- Charitable Incorporated Organisation (CIO)

All charities: Charity Statement of Recommended Practice (SORP)

Charitable companies: Companies Act disclosures





Report structures and filing – the basics

Accounts filing deadlines:

- Companies House - 9 months after year end
- Charity Commission - 10 months after year end

Annual Return to Charity Commission

Annual Confirmation Statement to Companies House

Audit requirements:

- £1m income; or
- Income > £250k **and** Gross assets > £3.26m; or
- Governing document requirements





Trustee responsibilities

Certain responsibilities cannot be delegated:

- Approval of charity strategy
- Approval of charity budget
- Approval of the accounts
- Approval of reserves policy
- Reviewing risk assessment



Charity Commission 15 Questions

Are we financially strong enough to continue to provide services for our beneficiaries?

Have we reviewed any contracts to deliver public services?

Do we have adequate safeguards in place to prevent fraud?

What is our policy on reserves?

Are we an effective trustee body?

Are we making the best use we can of our property?

Are we making the best use of the financial benefits we have as a charity?

Do we know what impact the social and/or economic climate is having on our donors and support for our charity?

Have we reviewed our contractual commitments?

How can we make best use of any permanent endowment investments we hold?

Have we considered collaborating with other charities?

What effect is the current economic climate having on our charity and its activities?

If we have a pension scheme, have we reviewed it recently?

Are we making the best use of our staff and volunteers?

Are we satisfied with our banking arrangements and our current and future investment policy?

15 questions trustees should ask

CHARITY COMMISSION





Other Charity Commission Publications

- [Charity Governance Code](#)
- [CC8 Internal Financial Controls for Charities](#)
- [CC20 Charity Fundraising: A guide to trustee duties](#)
- [CC25 Charity Finances: Trustee Essentials](#)
- [5 minute guides](#)



The annual report and accounts

Tom Brain

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Structure of Charity Accounts

**TRUSTEES'
REPORT**

**AUDIT
REPORT**

**STATEMENT
OF
FINANCIAL
ACTIVITIES**

**BALANCE
SHEET**

**CASHFLOW
STATEMENT**

NOTES





Trustees' report

- Objectives and activities
- Achievements and performance
- Financial review
- Reserves policy
- Plans for future periods
- Structure, governance and management
- Reference and administration details
- Exemptions from disclosure





SOFA

Income

- Donations and legacies
- Charitable activities
- Trading activities
- Other

Expenditure

- Raising funds
- Charitable activities
- Other

Gains and losses on investments

~~Profit~~

Net income (or surplus)

OR

~~Loss~~

Net expenditure (or deficit)

Net movement in funds





Balance Sheet

- Similar to a company balance sheet
- Total funds of the charity:
 - Endowment
 - Restricted
 - Designated
 - Unrestricted
 - Revaluation reserve

Questions...

Does your charity hold:

Unrestricted

Designated

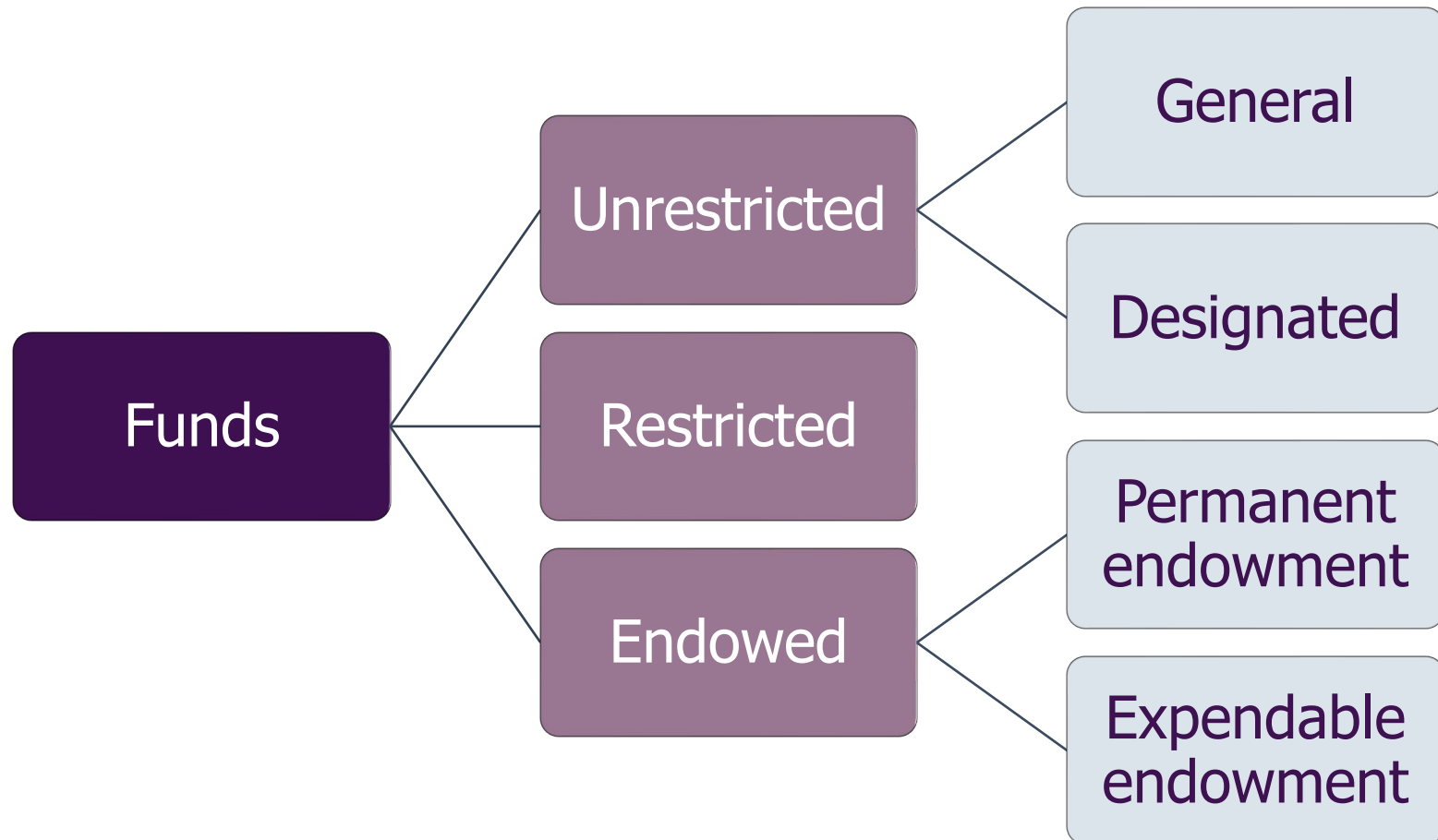
Restricted

When was your reserves policy last reviewed?

- Past 12 months
- Past 3 years
- Past 5 years
- Never
- I don't know



Charity Funds





Disclosure – notes to the accounts

- Details of income, expenditure and balance sheet items
- Trustee expenses (including those waived)
- Trustee donations
- Related party transactions

- Higher paid staff
- Key management personnel
- Ex-gratia payments



Trustees' Report – achievements

- Aims and objectives and linking to activities, achievements and performance
- Good and bad in the Trustees' Report – CC report highlights:
 - Commerciality – don't give an advantage away
 - Linkage – income, expenditure, words
 - 'Copy and paste' – revisit, amend and minute
- Balance – reporting negative outcomes/learnings as well as positive



Trustees' Report – reserves policy

- What is the right policy?
- Explanation of Restricted and Designated funds
- Target level of reserves
- Policy should link with your charity's own requirements – why do you need reserves? Each charity will be different.
- CC19 Charity reserves: building resilience



Reserves Policy Example

		£	£
Fixed Assets			2,500,000
Debtors		200,000	
Cash		300,000	

		500,000	
Creditors		(250,000)	

			250,000
Total			2,750,000
Unrestricted Funds			2,600,000
Restricted Funds			150,000
Total			2,750,000



Using designations

		£	£
Fixed Assets			2,500,000
Debtors		200,000	
Cash		300,000	

		500,000	
Creditors		(250,000)	

			250,000
Total			2,750,000
Unrestricted Funds:			
Designated Funds			2,500,000
General Funds			100,000
Restricted			150,000
			2,750,000





SOFA – activity headings

- Should reflect what you do
 - Schools – provision of education
 - Grant makers – by grant type
 - Service delivery – by service type or provision
- Should be able to link income and expenditure to the words – more explicit in SORP
- Enables you to communicate to the reader what each activity has cost



SOFA – income

Donations and legacies

In substance, a gift made on a voluntary basis

- *Donations, legacies, subscriptions, grants, donated goods and services*

Charitable activities

Income earned both from the supply of goods or services under contractual arrangements and from performance related grants

- *Grants, contracts, lettings for charitable purposes*

Other trading activities

Income earned from trading activities to raise funds and income from fundraising events

- *Retail, lottery, subscriptions, sponsorship, lettings on a temporary basis*





SOFA – income

Revenue recognition

- Entitlement – do we have a right to receive the income?
- Probability – are we more likely than not to receive the income?
- Measurement – do we know, to a reasonable degree, how much income we are going to receive?

We recognise revenue when all three criteria are satisfied





SOFA – expenditure

- Direct costs of each activity
- Allocated costs for each activity
- Support costs (including governance costs)



SOFA – support costs

- Support and governance costs should be allocated across activities
- A relevant and reliable approach to allocation should be adopted
- Think about cost vs benefit
- Possible bases:
 - Usage
 - Staff time
 - Floor space occupied
 - Staff numbers

Support costs example

	Direct costs	Allocated costs	Support costs	Total
	£	£	£	£
Raising funds				
Fundraising	100,000	50,000	20,000	170,000
Investment fees	25,000	-	-	25,000
Charitable Activities				
Prog 1	500,000	150,000	25,000	675,000
Prog 2	200,000	20,000	15,000	235,000
	-----	-----	-----	-----
	825,000	220,000	60,000	1,105,000





Accounting treatments

- “Matching principle” and “smoothing” are not principles of charity accounting...
- We recognise income when we are entitled to it and expenditure when we have incurred it

Reminder:

- Unrestricted funds – charity’s own funds
- Restricted funds – money held on trust



Restricted fund accounting

- Example:
 - £100,000 agreement
 - Over two years
 - Received in full 29 December 2023
 - Charity has a 31 December y/e
- Treatment depends on the terms and conditions of the agreement



No time restrictions

- £100,000 to be accounted for in full on receipt
- Unspent monies carried forward in restricted funds
- No income in future years, but draw down on unexpended restricted fund



Time limitation

- £100,000 is allocated to two specific periods, being the year ended 31 December 2024 the year ended 31 December 2025 in equal instalments
- Full £100,000 is treated as deferred income in y/e 31 December 2023 accounts
- £50,000 is treated as income in y/e 31 December 2024 and 2025 irrespective of expenditure



Takeaway - What do you use your accounts for?

- Public document
 - Fundraising
 - PR
 - Status
 - Communication
- Compliance document
- Other third party reporting requirements





Takeaway - Bringing your accounts to life

- Reorder the financial statements
- Chairs report
- Beneficiaries' stories
- Infographics to show financials
- People reporting
- Environment and sustainability
- Impact reporting
- COVID-19



BREAK!



Tax considerations

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Who else looks at your accounts?

- HMRC
- Be mindful that one of the first things HMRC will look at are your accounts
- Compliance document or for other purposes





Websites

- Membership benefits
- VAT
- Gift Aid
- Finance Team review
- Other communication with the public
- Fundraising events





Tax avoidance

- Clearly now in the headlines
- Negative and damaging PR
- But Trustees are under an obligation to act in the best interest of the charity
- Tax planning -v- Tax avoidance
- Errors – can risk be mitigated
- Do you have a communications plan?



But charities don't pay tax

There is a fundamental difference between primary purpose trading by a charity and trading which constitutes an activity to generate funds.

- Primary purpose trading can be carried out at any time by a charity, whereas trading for a profit can only be carried out subject to rigorous risk assessments
- Primary purpose trading can be a trade and the provision of services and does not have to involve receipt only of grants, but is a trade which undertakes the actual charitable objects of the charity – not subject to income or corporation tax
- Subject to a £80,000/25% turnover de minimis limit, any non-primary purpose trading carried out by a charity which results in a profit will be taxed on the profit, or which results in a loss will be taxed on the loss



But charities don't pay tax

- But as regards VAT there are only a handful of quite narrow reliefs
- Otherwise the normal VAT rules apply
- But one of the normal rules is that VAT on expenditure can only be reclaimed if the expenditure is used in making taxable supplies
- Many charities are involved in carrying out so called non-business (free of charge) activities – so no VAT recovery
- Where they are involved in charged for activities they are often exempt supplies



But charities don't pay tax

- Supplies that are exempt include:
 - Education
 - Cultural activities
 - Health and Welfare
 - Sport
 - Membership bodies
 - Estimates that irrecoverable VAT costs the charity sector £2Bn per annum





Sponsorship?

- Experience shows that charities often refer to the confusing terminology “sponsorship” when they mean a variety of things
- It is generally inadvisable to refer to a pure donation as “sponsorship”. Sponsorship, in a business context, almost invariably means the provision of benefits by the charity (even if only reputational) to the payer
- A grant or donation does not involve giving anything in return
- The unfortunate use of the word “sponsorship” in regard to donations made in regard to venture fundraising activities helps reinforce the confusion



Sponsorship?

- Any form of payment which involves the donor having their logo shown, or a commercial participation arrangement whereby the donor can associate themselves in some beneficial light with the IP of the charity, is a sponsorship activity and does not involve a grant or donation

Management information for Trustees

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Charity Management Accounts – why?

Charity Commission guidance: The Essential Trustee

...You must do what you and you co-trustees...decide will best enable the charity to carry out its purposes...

...make balanced and adequately informed decisions...

...need to work out what funds and other resources your charity will need and where the charity will get these from. A charity can only succeed in meeting its aims if it manages its money and other resources properly. You will need to plan and monitor its income and outgoings so that it can meet its short, medium and long term goals.





Charity Management Accounts – when?

- As regularly as you need in order to make decisions
- This may be:
 - Monthly
 - Termly
 - Quarterly
- Where problems have been identified (e.g. tight cashflow), you may need to monitor the position more frequently
- Must be accurate and timely





Charity Management Accounts – what?

- Useable – to make decisions, to understand the charity’s position, to spot opportunities, to help manage risks
- Show performance against budget and prior year
- Include balance sheet as well as income/expenditure
- Include forecasts to the end of the year, including cash flow
- Clear and understandable:
 - Show the key information in a way you understand, with commentary, graphs and KPIs as necessary
 - Detail available behind summary pages
 - Link to strategic plan/aims/goals





Trustee Checklist

- Income and expenditure (by key activity)
- Balance sheet information
- Funds analysis
- Cash flow forecast
- Prior year comparisons
- Commentary/explanations – from budget holders
- Identify your key indicators/benchmarks



Management Accounts – example 1

	Month				YTD				Full year Budget	Prior year	
	Actual	Budget	Variance	%	Actual	Budget	Variance	%		Actual	Budget
	£	£	£	%	£	£	£	%	£	£	£
Fundraising											
Legacies	150,000	20,833	129,167	620.00%	150,000	145,833	4,167	2.86%	250,000	100,511	250,000
Donations - DD	2,500	6,250	(3,750)	(60.00%)	65,665	43,750	21,915	50.09%	75,000	72,025	150,000
Donations - other	9,662	29,167	(19,505)	(66.87%)	10,000	204,167	(194,167)	(95.10%)	350,000	182,500	300,000
Donations - major donors	8,000	6,250	1,750	28.00%	58,500	43,750	14,750	33.71%	75,000	25,000	100,000
Fundraising events	3,115	7,083	(3,968)	(56.02%)	50,000	49,583	417	0.84%	85,000	-	10,000
Lottery	5,000	2,667	2,333	87.50%	35,002	18,667	16,335	87.51%	32,000	15,635	32,000
Retail	7,665	7,500	165	2.20%	55,777	52,500	3,277	6.24%	90,000	20,555	90,000
Other	500	417	83	20.00%	500	2,917	(2,417)	(82.86%)	5,000	-	-
	<u>186,442</u>	<u>80,167</u>	<u>106,275</u>	<u>132.57%</u>	<u>425,444</u>	<u>561,167</u>	<u>(135,723)</u>	<u>(24.19%)</u>	<u>962,000</u>	<u>416,226</u>	<u>932,000</u>
Charitable Income											
Grants	62,500	62,500	-	0.00%	437,500	437,500	-	0.00%	750,000	698,500	700,000
Contracts for services	12,500	12,500	-	0.00%	87,500	87,500	-	0.00%	150,000	250,000	-
Other	-	250	(250)	(100.00%)	-	1,750	(1,750)	(100.00%)	3,000	2,556	-
	<u>75,000</u>	<u>75,250</u>	<u>(250)</u>	<u>(0.33%)</u>	<u>525,000</u>	<u>526,750</u>	<u>(1,750)</u>	<u>(0.33%)</u>	<u>903,000</u>	<u>951,056</u>	<u>700,000</u>
Investment Income	5,250	7,917	(2,667)	(33.68%)	35,500	55,417	(19,917)	(35.94%)	95,000	85,222	100,000
	<u>266,692</u>	<u>163,333</u>	<u>103,359</u>	<u>63.28%</u>	<u>985,944</u>	<u>1,143,333</u>	<u>(157,389)</u>	<u>(13.77%)</u>	<u>1,960,000</u>	<u>1,452,504</u>	<u>1,732,000</u>
Salaries											
CEO office	15,885	12,500	3,385	27.08%	111,195	87,500	23,695	27.08%	150,000	128,888	125,000
Corporate services	39,888	29,167	10,721	36.76%	279,216	204,167	75,049	36.76%	350,000	395,156	358,000
Fundraising	56,000	45,833	10,167	22.18%	392,000	320,833	71,167	22.18%	550,000	695,830	580,000
Charitable activities	64,888	54,833	10,055	18.34%	454,216	383,833	70,383	18.34%	658,000	699,247	650,000
Pensions deficit	10,000	8,333	1,667	20.00%	70,000	58,333	11,667	20.00%	100,000	100,000	-
	<u>186,661</u>	<u>150,667</u>	<u>35,994</u>	<u>23.89%</u>	<u>1,306,627</u>	<u>1,054,667</u>	<u>251,960</u>	<u>23.89%</u>	<u>1,808,000</u>	<u>2,019,121</u>	<u>1,713,000</u>
Fundraising expenditure											



Management Accounts – example 2

Reserves Forecast 2016

	Current Jun-16 £'000	Forecast Dec-16 £'000	Budget Dec-16 £'000
General	150	250	350
Fixed asset fund	1,500	1,450	1,450
Strategic fund	1,000	1,000	1,000
Restricted	750	850	500
Total	3,400	3,550	3,300

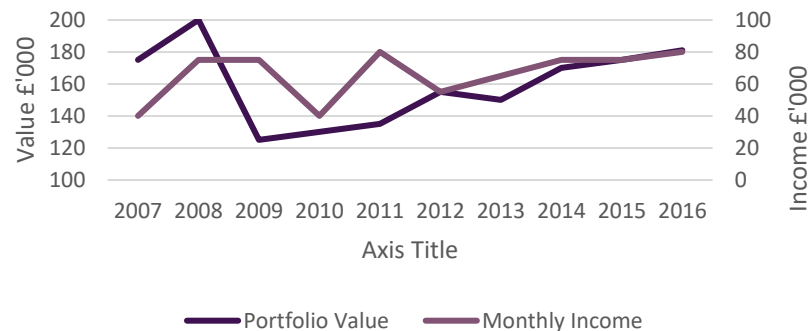
Total portfolio
£10.5m

1,054 children reached
through projects (2015: 753)

Grants
Awarded
2016
£2.5m
(budget
£2.2m)

Grantee survey 96%
good/excellent

Investment Performance



Administration Expenditure Forecast

	Current Jun-16 £'000	Forecast Dec-16 £'000	Budget Dec-16 £'000	Variance	
				£'000	%
Staff costs	765	1,525	1,500	25	2%
Fundraising	160	322	350	(28)	(8%)
Finance, IT, HR	188	355	400	(45)	(11%)
Other	72	150	125	25	20%
	1,185	2,352	2,375	(23)	(1%)

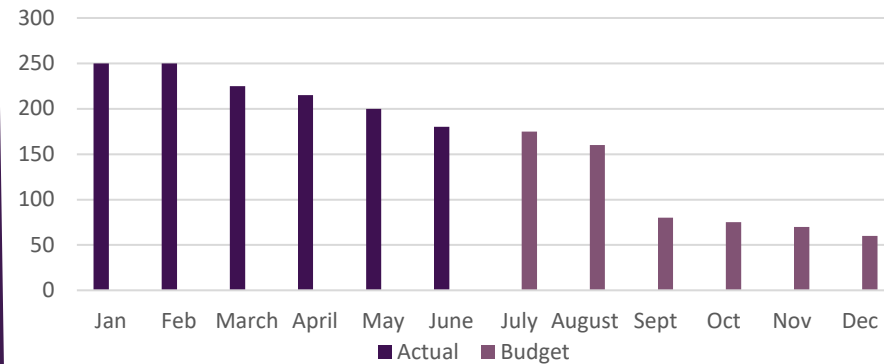


Management Accounts – example 3

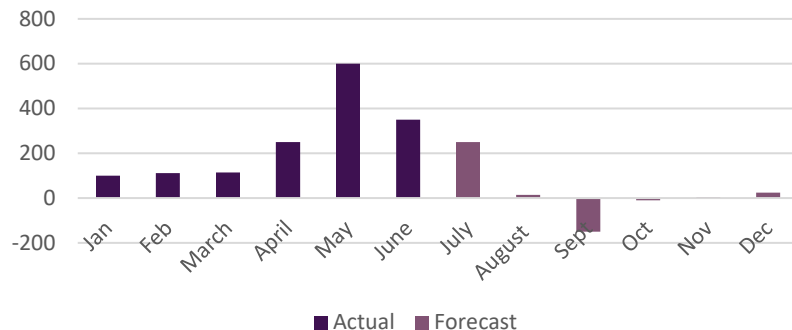
Summary Income and Expenditure

	Current Jun-16 £'000	Forecast Dec-16 £'000	Budget Dec-16 £'000	Variance	
				£'000	%
Fee income	765	1,525	1,450	75	5%
Other income	50	150	175	(25)	(14%)
Total income	815	1,675	1,625	50	3%
Teaching costs	160	322	350	(28)	(8%)
Property costs	188	355	400	(45)	(11%)
Administration	72	150	125	25	20%
Other costs	123	250	558	(308)	(55%)
	543	1,077	1,433	(356)	(25%)
Surplus	272	598	192	406	211%

Fee Debtors > 12 months



Cash Flow Forecast 2016



Capital Project

Total costs to date £1.54m

Forecast costs to completion £2.67m

COMPLETION DATE: Sept 2017

EBITDA/loan costs 2.6 (covenant 2.5)





Reconcile Mgt Accounts to Stats

- Understand structure and basis of preparation of mgt accounts
- Common differences to statutory accounts:
 - Depreciation
 - Cash receipts v deferrals
 - Commitment accounting, particularly grants
 - Cost allocations only at year end
- Reconciliation to stats
- Projected cash-flow needs – going concern



Cashflow and going concern

- Signing your accounts
- Crystal ball gazing, uncertainty of funding
- Cashflow forecasting is key
- Understand individual entity cash flow
- Understand the split of restricted vs unrestricted funds
- Assumptions and sensitivity analysis





Trading subsidiaries

- Directors responsibilities
- Must make a profit, must also bear a fair allocation of shared costs
- Separate entity in its own right. Monitor results and keep stat books up to date
- Understand the flow of cash and intercompany transactions
- Gift Aid rules





Top 5 points to takeaway

- Trustees' are responsible for the finances – arm yourself with the facts
- Management information in a form that 'you' understand, with explanations for variances
- Strategic/operation plan looking 2/3 years ahead
- Understand the financial risks, strategy and reserves policy together
- Engage with the audit process and make sure your public document works for you


A group of five young people (three women and two men) are huddled together, smiling broadly. They are wearing casual clothing. The image has a purple overlay. The text "Questions?" is written in white on the left side.

Questions?



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