

## Charities & Education

# update

## MANAGING THE RECESSION



**The days of debating whether the UK economy was in recession are long gone, and the key questions**

**now are how long it will last and what impact it will have. There is little doubt that charities need to take action now.**

Latest figures released by the Charity Commission in March 2009 bring home the stark realities of how the sector is being affected:

- 52% of charities said they had been affected by the downturn.
- 64% of charities with income over £1m have concerns that the recession will affect future work.
- 32% of charities have taken steps to combat the effects of the recession.
- 6% of charities have considered collaborating or merging with another charity.

One of the key issues for charities is the potential double hit of a drop in income and an increased demand from their beneficiaries. It is vital that all charities consider how the recession will affect them and take steps to control what they are able to.

Examples of steps which charities might take include the following:

- Assessing the likely impact on income – the potential impact will vary greatly across different charities. Two areas likely to be significantly affected are corporate donations and statutory funding. The latter is likely to be heavily hit from April 2010 as a result of pressure on public finances.
- Focus on specifics – the demand for funding is likely to be more competitive than before. Fundraising strategy will need to be clearly

focused on specific appeals of high quality if it is to be successful.

- Cost control – activities need to be reviewed and costs removed where benefit may be marginal. This applies both to specific projects and overheads. Make sure that you don't damage long term effectiveness.
- Cashflow management – charities need to manage their cashflow in the future to identify critical points where big decisions may need to be taken. It may be sensible to have contingency plans in place if income streams are under threat.
- Banking and investment – the problems in the banking and investment areas have been widely reported. Charities need to consider both returns and security to ensure that charitable funds are being properly looked after.
- Relationships – these are likely to be more critical than ever. Identify the key ones and make sure they are maintained and enhanced.

The impact will vary across the sectors. For example, pupil numbers will be the key for independent schools and the ability of parents to fund school fees will be critical. It may be necessary for schools to consider offering credit facilities and in some cases school mergers will be necessary.

Some charities will choose to utilise their reserves to help enable them to support their beneficiaries, and others will seriously consider the benefits of merger. There are many small charities where there may be a logical benefit in merging to create a larger organisation. The most common benefits will be enhancing the ability to generate funding together with economies of scale which will help reduce costs. In other cases closer collaboration with other charities may create significant benefit.

Whatever the charity, it is clear that trustees and management need to consider this issue carefully to make sure that they fulfil their responsibilities.

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## JAMES COWPER TO ADVISE HLF CHARITY

James Cowper has been appointed to advise the Black Cultural Archives (BCA) on VAT planning in relation to their £6.5m project to create a new national centre for black cultural heritage in Brixton.

Terry Dockley, VAT Director at James Cowper, and his team will act as consultants in relation to the heritage lottery supported regeneration and extension project of Raleigh Hall, a derelict Grade 2 listed building.

Vivek Malhotra, Project Director at the BCA said, "We are very pleased to have James Cowper's VAT team working along side us on this ambitious project. Their understanding of our objectives combined with their in-depth technical knowledge and experience in dealing with VAT issues, charities and HLF (Heritage Lottery Fund) funded projects made them the perfect partners to help us push this development forward."

The BCA was established in 1981 to promote and disseminate black history through exhibitions and learning events. Its archive collection consists of a wide range



of materials which will be exhibited in the newly formed National Black Heritage Centre once the project is completed in 2011.

Terry Dockley said "The BCA will have a complex VAT profile once it is established

at Raleigh House, reflecting the wide range of cultural, educational and community activities that they plan to run from this building. They have a number of key decisions to make with a bearing on the VAT treatment of their planned income streams and the liability of the building works to be carried out. In taking their HLF bid to the next stage it is crucial that this exercise is accurately completed and we relish the challenge of working with them to achieve this."

**If you want to know more please contact Terry Dockley on +44 (0) 1635 35255 or [tdockley@jamescowper.co.uk](mailto:tdockley@jamescowper.co.uk)**

# CHARITY THRESHOLDS



A number of changes in accounting and reporting income thresholds took place from 1 April 2009:

- the limit for preparation by an unincorporated charity of accruals accounts increased from £100,000 to £250,000.
- the threshold for submission of accounts and a trustees' report to the Charity Commission is raised from £10,000 to £25,000.

These revised thresholds apply to financial years ending on or after 1 April 2009.

## Independent examinations

The changed rules mean that broadly speaking independent examinations are now required where gross income is between £25,000 and £500,000 and an audit is needed if gross income exceeds £500,000. An audit is also needed if gross assets exceed £3.26m, and gross income is more than £250,000.

Unless the Articles of Association require an audit, charitable companies have an independent examination instead of an audit for accounting periods ending on or after 1 April 2009 where:

- gross income does not exceed £500,000; and
- where gross income exceeds £250,000, the charity's gross accounts do not exceed £3.26m.



Where a charity qualifies for independent examination but its income is greater than £250,000, then the examination must be performed by a member of an approved professional organisation.

For further information please contact Alex Peal on +44 (0) 118 959 0261 or [apeal@jamescowper.co.uk](mailto:apeal@jamescowper.co.uk)

# PUBLIC BENEFIT REPORTING: NEW REQUIREMENTS FOR SCHOOLS AND OTHER CHARITIES

The debate on public benefit has rumbled on for several years, and many commentators believe that the guidance still requires substantial revision. Some sectors are affected more than others, and independent schools have attracted significant attention.

For charities with year ends of 31 March 2009 or later, the trustees' report must contain a statement that the trustees have given consideration to the Charity Commission's general guidance on public benefit and to any supplementary sub-sector guidance which has been issued.

The trustees' report must also provide details of those activities undertaken by the charity to further its charitable purposes for the public benefit. For many charities this requirement will not significantly change the content of the report.

The Charity Commission's website contains much useful information, including example reports for a variety of charities. One of these reports is for the Alltown School Foundation Charity, an independent school.

The relevant website reference is: [www.charity-commission.gov.uk/publicbenefit/default.asp](http://www.charity-commission.gov.uk/publicbenefit/default.asp)



## GOOD NEWS FOR CHARITIES AND FOR DONORS

We all know that for donations to be made under Gift Aid, the donation must be made in the form of money, not some other gift – there are separate tax reliefs for land and shares. However, the same effect can be achieved when donating goods to your local charity shop, which is good news for both the donor and the recipient charity.

### So how does it work?

In these cases the charity must act as "agent" for the potential donor so that the donor brings their goods into the charity shop for the shop to sell on their behalf. The goods belong to the owner not to the charity. Once the goods are sold, the former owner has the right to receive all of the proceeds. The charity must contact the former owner of the goods and offer to pay to them the proceeds of sale. The former owner can then choose to donate the proceeds to the charity under Gift Aid.

In practice, many donors complete their Gift Aid form at the time that they bring their goods in for sale. They can also sign a contract so that it is clear that the goods are being sold by the charity as agent for the donor and that the charity will write to notify them of the sale and the amount of the proceeds. In practice, this contract only needs to be signed on the first occasion that a potential donor brings goods in for sale under this type of arrangement. The potential donor is given a unique code that connects the items for sale with that particular person. The goods are then offered for

sale. As they are sold, typically at the end of each month, the charity writes to the potential donor to advise them of the sales made and to ask the potential donor to contact the charity if he or she wishes to keep the proceeds. If the potential donor wishes to donate them then they have no need to contact the charity which can keep the proceeds and claim Gift Aid on them. Likewise, the donor can also claim Gift Aid relief if he or she is a higher rate taxpayer.

So overall it is good news for charities and good news for donors!

If you want to know more about setting up this type of scheme and the rules that apply please contact Ian Miles on +44 (0) 1491 572565 or [imiles@jamescowper.co.uk](mailto:imiles@jamescowper.co.uk)



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