

welcome...

Welcome to the latest edition of our Newsletter for charities and not-for-profit organisations. As we all know, every charity is unique, but there should be something for everyone in this edition.

This issue has a primarily financial theme. As well as considering actions that your organisation could take in the current economic climate, we look at how your organisation could benefit from working more closely with other charities. We also consider opportunities you may have if you are registered for VAT or if you have vacant space in your property. Finally, we have an informative article for not-for-profit organisations regarding the Social Enterprise Mark.

Our charity team continues to grow in strength and experience and we now advise over 150 organisations across the South West each year. I would like to congratulate Tim Borton and Kevin Grainger on gaining their Diploma in Charity Accounting – this means that we now have five qualified charity accountants at Bishop Fleming, more than any other in the region.

Please do not hesitate to contact us if you need further information on any of the issues that face you.

Joe Scaife



Risk, what risk?

There can be no doubt that we are currently in uncertain financial times. Concern is spread across the business sector and various media headlines around the “credit crunch”, business profit warnings and a general slow down in economic activity all add to this uncertainty. Have you considered how this may impact on your charity?

No two organisations are the same. However, consider whether the following scenarios are relevant to you:

Do you hold all your investments with one Institution? A number of our charity clients who held all their reserves with one financial institution have now considered spreading this risk even if this leads to a small reduction in investment income. Trustees should consider the impact on their charity if they were not able for some reason to access enough of their reserves at short notice. Holding their reserves with more than one financial institution can reduce this risk.

How secure is your main income stream? If the majority of your income comes from only one source then consider how secure this is, and whether or not you can take further action to increase this security. For example, if you are primarily funded by a local authority, then ensure that the relevant people in your organisation are being as proactive as possible in obtaining signed Service Level Agreements. Trustees should ensure that they are satisfied that all the necessary action is being carried out in a proactive way by the management team.

Have you considered budgeting for a deficit this year, or next year? A number of charities who have built up reserves through steady surpluses in the last few years are now considering whether to budget for an operating deficit. In the current economic environment this is actually very sensible if your charity can afford to do this. It is better to plan a deficit if your reserves can support this, rather than delude yourselves with a budget which then proves over optimistic as you progress through the year.

Are your internal systems strong enough to cope with temporary setbacks or cash flow issues? A number of our clients in recent times have reviewed their internal systems and controls with particular regard to those in place over the collection of income. If you are operating with a low level of reserves of, say less than three months, then it would be prudent to check now that these systems are as tight as possible.

If you have concerns or questions on any of these issues then please do contact your usual Bishop Fleming adviser.

inthisissue

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VAT snippets

There have been a number of changes regarding VAT in recent months, including:

Correcting mistakes

From 1 July 2008, HMRC has increased the limit below which errors can be adjusted on a VAT Return. Presently any errors above £2,000 have to be disclosed separately to HMRC on a special form, upon receipt of which HMRC will raise an assessment and charge interest on the amount owing. Under the new procedure, the limit is being increased to £10,000, or 1% of your turnover whichever is the greater. This will be a positive step in simplifying matters and reducing the cost of complying with the often complex rules that we all have to abide by.

Employment costs

Under current VAT rules, most employment agencies normally only charge VAT on their 'profit margin', not on the total amount received. This concession is to be withdrawn from 1 April 2009 and unfortunately this will be felt most by non VAT registered bodies that use hired staff. Charities, nursing homes and similar organisations who are unable to register for VAT will be severely hit.

VAT windfall for rescue charities

Following a VAT & Duties Tribunal case involving a dog and cat home in Plymouth, HMRC have accepted that the sale of pets is not liable to VAT, when they are brought in by, say, the local council. HMRC had argued that pets brought in by the council would not be regarded as 'donated', in order for a sale to qualify for VAT-free status. If you operate a rescue centre and have been paying VAT on such sales, please contact us to ascertain whether you qualify for a retrospective refund.

Gift Aid – an unexpected sting in the tail?

Many charity shops have hit on the ploy of asking taxpayer donors to let them sell their goods as agent, and then donate the proceeds to the charity. This enables the charity to reclaim Gift Aid relief on the donation. So far, so good, but the VAT effect will be to turn significant sums of zero rated income into non-business donations. This could have the effect of significantly reducing the amount of VAT that the charity can reclaim on shop overheads, especially if the shop pays VAT on the rent. Each case will have to be judged on its merits, but it is a factor that could go un-noticed, at least until such time as the VAT inspector comes to check the VAT returns.

At last ... an identity for social enterprises

The Social Enterprise Mark is a label that shows customers they are buying from a social enterprise and creating a social or environmental benefit. Social enterprises are queuing up to use the Mark because it differentiates them from the private sector and helps them to maximize opportunities presented by the growing ethical consumerism trend.

The Social Enterprise Mark is the only label of its kind that is open to all types of social enterprises that successfully meet the qualification criteria. These criteria are:

- clear social or environmental aims and achievements;
- profits and assets are used to support these aims;
- profits and assets are protected in the way they are governed;
- organisations generate 50% of their income from trading;
- legal status and constitution.

National demand for the Social Enterprise Mark is very high so visibility of the Mark should grow quickly, although the Mark is currently only available in South West England. Organisations that trade outside of the region should sign the petition to call for its availability nationwide (see www.rise-sw.co.uk).

RISE is the voice for social enterprise in South West England and they manage the Social Enterprise Mark in the region. Current holders include: the Eden Project, Zebra Collective, Mid-Devon Community Recycling, Devon Doctors, Cosmic, and the Co-operative Group South West. The Social Enterprise Mark is funded by the National Lottery through the Big Lottery Fund and is sponsored by the Co-operative Group South West and Triodos Bank. RISE is funded by the South West Regional Development Agency.

To find out more visit www.socialenterprisemark.co.uk, or contact Sue Bladon, e: sueb@rise-sw.co.uk, m: 07813 151 234.

Charity events

On 22 May Bishop Fleming held a seminar for charities and not-for-profit organisations at The Palace Hotel in Torquay. The event had an excellent attendance with over 90 representatives from various organisations involved in this sector.

The first speaker, Joe Scaife, our Head of Charity and Not-for-Profit Group, gave a presentation on "Changes in the Charities Environment". He emphasised how the current economic environment would impact on charities, and what these organisations should be doing to mitigate the effects of any downturn. He also advised charities to develop an action plan based on the charity's circumstances, and its financial risks. The overall message was "don't panic", but plan prudently for the next two years.

Our second speaker Nigel Wollen, of Hooper Wollen Solicitors, presented on Charity Law and Public Benefit. He explained the advantages and disadvantages of incorporating and limiting

liability, together with the importance of choosing the right trading vehicle. Trustees were advised to review the objects, goals and risks of the charity and assess which trading vehicle would be most appropriate. He also briefly explained about the Charitable Incorporated Organisation (CIO) and then discussed the expected content of a Trustees' report, for different sized charities.

The final presentation was by Melanie McLoughlin from Devon Community Foundation (DCF). She explained the role of DCF and how they are "Devon's local charity for local people". She went through the grant making process and how important DCF are in helping Devon overcome its hidden needs in areas such as unemployment, poverty, rural isolation and homelessness

We will be running further events across the region, so watch out for announcements, or contact us to be added to our invitee list.

Plymouth charity forum

Pamela Tuckett



The discussion topic of the second charity forum in Plymouth was 'mergers and collaborative working'. What this highlighted was the breadth of collaborative working that is already taking place in the sector locally. There were examples ranging from the sharing of best practice by trustees who are involved in more than one charity, through to the sharing of resources to help maintain premises for two charities where one of the charities could not afford their own full time maintenance person.

When I decided to use this as our discussion topic, I thought there would be plenty of guidance for charities. After wading through the technical papers on the charity commission website, I realised that there was a lack of clear guidance on how to actually go about merging. In an attempt to put some structure on the merger process, I have now created a one page guide on the steps involved. If you would like a copy please contact me on ptuckett@bishopfleming.co.uk

On the whole, informal collaborative working seems to be in place and working effectively. Formal collaborative working is far less common. Reasons given for this include confusion for the potential funders when putting in complex funding bids, through to competition between charities in the same sector fighting over the same finite pot of money.

Mergers are also rare and a review of the register of mergers supports this. Although the Charities Act 2006

has made it easier for charities to merge by simplifying the rules and enabling charities to transfer property more easily, the whole process can take years and will use up valuable time and resource. Legal fees can mount up to tens of thousands of pounds depending on the complexity of the merger. On top of that will be restructuring costs which may outweigh any benefits from merging. The cost of merging is far more likely to stop it happening than a technical problem, say with the charity's objects, which can usually be overcome with the help of the Charity Commission.

My advice to anyone thinking of merging would be to seek professional help and advice early in the process to establish the likely costs involved and the technical hurdles that need to be overcome. Having said that, there will obviously be situations where merging is the right answer, you just need to make sure you go into the process with your eyes open.

Charity Forums are now being held regularly across our offices. For further information on your next local event please contact your usual Bishop Fleming adviser.



Do you have empty properties?

If you are a charity or a community amateur sports club and own a property that is currently empty, then you are probably paying reduced business rates and receiving 80% relief on the normal rates bill. A new Act of Parliament, the Rating (Empty Properties) Act 2007, could change that if you are not planning to use the property for your own use or for use by another charity.

If the property is likely to next be occupied by someone who is not a charity, then you will have to pay 100% full business rates after the initial 3 or 6 month rate free period. This is likely to be the case where the property is empty and on the open market awaiting sale.

If you are in this situation, then it would make sense to continue to occupy the property until three months prior to the date of sale completion in order to continue to qualify for rates relief.

Alternatively, you may wish to let the property to another charity if you cannot occupy it yourself. This could provide opportunities to charities seeking properties to let or buy. If you need extra space and are aware of a charity with surplus property available for let or sale, then there could be some mutual benefits if the rates relief remains available.

If you need further information please speak to your usual Bishop Fleming contact.



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Bishop Fleming has a team of specialists, dedicated to the charity and not-for-profit sector including:

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