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Charities & Education

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Academy accounts show improved financial health

The financial health of the academies in England improved in 2018/19 but there was a slowdown in the number of schools converting to academy status and an increase in fraudulent activity, according to annual accounts published by the Department for Education.

There were strong regional differences in financial performance, with around one in ten academy trusts in the West Midlands, Lancashire and West Yorkshire in deficit. However only 5% of trusts in the East Midlands and the Humber, north west London, south central England, south London and south east England were in deficit. Overall, the aggregate cumulative deficit in the sector fell to £64 million in 2018/19, down from £78 million in 2017/18. The number of academy trusts in cumulative deficit fell to 168 in August 2019, down from 195 in August 2018. The figures also revealed that a quarter of trusts had a deficit of over £500,000 and two thirds were single academy trusts. However, 189 trusts had surpluses of more than £3 million.

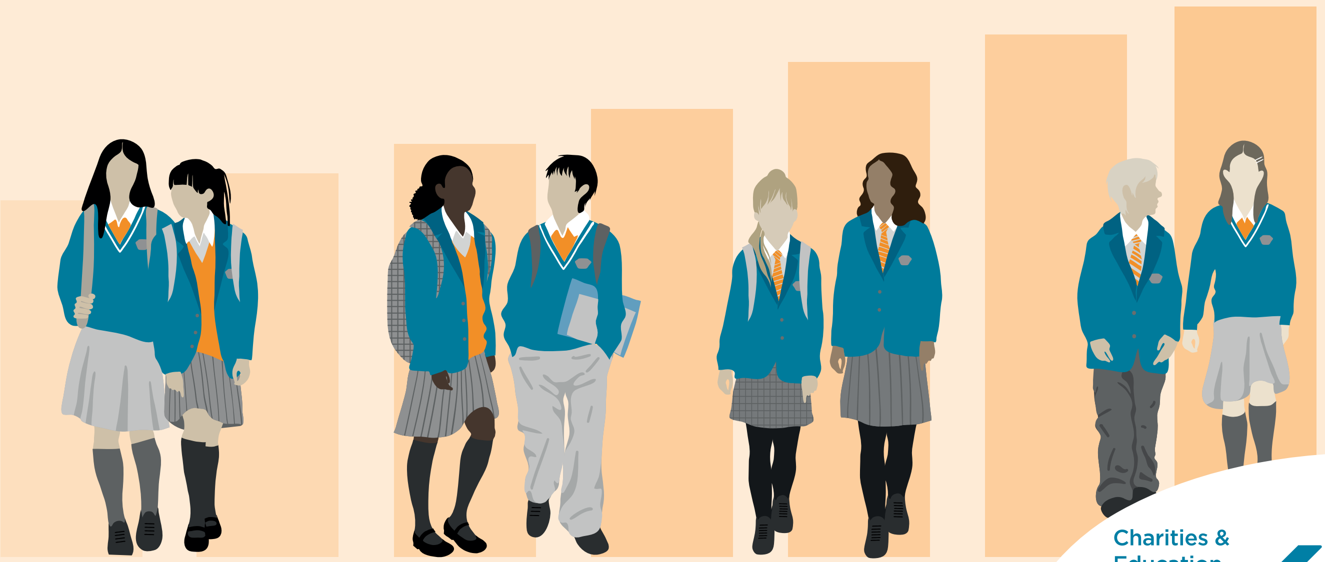
Almost 950 schools in England converted to academy status in 2018/19, compared with 1,172 in 2017/18. Academies now make up 76% of all secondary schools and 34% of primary schools. Over 80% of academies are in trusts that manage more than one school.

Reported fraud in the academy sector grew sharply to £2.3 million in 2018/19, compared with £0.98 million in 2017/18. The number of individual trusts reporting fraud, theft or financial irregularities exceeding £5,000 increased to 68 from 49. However, following greater controls introduced by the Government, the value of 'related-party transactions' (ie, academy trust payments to organisations connected to their trustees) fell to £93 million in 2018/19, down more than 12% on 2017/18. The number of these transactions also fell, by almost 8%.

The poor performance of some academy trusts led regional school commissioners to take more enforcement action than in previous years. Regional commissioners issued 20 'minded to terminate' letters (compared with just four in 2017/18), ten 'pre-warning' notices (of which none were sent in 2017/18) and 14 termination notices.

The salaries of senior academy staff appear to be increasing. Almost half of academies paid at least one staff member between £100,000 and £150,000 in 2018/19, compared with a third in 2017/18. However, the total value of staff exit packages fell to £59 million in 2018/19, down from £62 million in 2017/18.

To read more about the figures, go to: https://bit.ly/3nBOye5



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Warning for charities supporting loss making trading subsidiaries

Charities must meet certain conditions when supporting their trading subsidiaries with additional funding, such as charity shops that have been affected by Covid-19 restrictions. Normally any profits charity shops make are covenanted back to the charity under corporate Gift Aid rules. However, experts have warned that due to the Covid-19 pandemic many charity shops have been closed for long periods and could be generating a loss and therefore require additional funding. For example, Oxfam has reported that it lost around £5 million a month during the lockdown when its shops were closed. According to the British Heart Foundation, the full economic impact of the pandemic on the charity will not be known for some time.

In addition to the effect of shop closures, social distancing requirements have limited the number of customers who can be on the premises and affected sales. Changing customer behaviour (such as an increasing preference to buy items online rather than in high street shops) could also affect charity shops' income in future.

Experts have therefore reminded charities that any additional support provided by a charity to their trading operation must be provided as an 'arms length' transaction such as a loan and not 'freely given'. Loans must be made at commercial rates and demonstrate good use of charitable funds. Any charity that cannot meet these requirements may not be able to provide support for their trading subsidiaries.

Read more about this story at: https://bit.ly/34M2pWs

Financial transparency measures announced

The Department for Education (DfE) has confirmed plans to apply financial transparency measures to local authority maintained schools. The plans are based on measures that already apply to academy trusts.

The measures include changes to the dedicated schools grant (DSG) assurance statement return that local authorities must complete each financial year. The changes, which will apply for 2020/21, will allow the DfE to collect information about the number of schools with suspended budgets and notices of financial concern, and about the number of recovery plans in each local authority. A new section in the DSG assurance statement will also show the amounts that local authorities have recovered by investigating fraud.

Maintained schools will also be required to provide local authorities with three year budget forecasts and annual information about related party transactions (ie, payments to firms with a connection to the school or its personnel). Schools will be required to submit their forecasts between 1 May and 30 June each year starting in 2021/22. Schools whose deficit rises above 5% when they are measured on 31 March 2021 will be required to submit a recovery plan to the local authority.

From January 2021 all local authority maintained schools will also be required to publish information on their website about the salaries of any staff members who earn more than £100,000, as well as a link to information about their latest Consistent Financial Reporting statement of income, expenditure and balances.

The DfE will publish the names of local authorities that have missed three or more deadlines for returns. The DfE will provide a grant to each local authority based on the number of maintained schools that need help with meeting the costs of the financial transparency measures.

To read more about the changes, go to: https://bit.ly/3dhnP1E

In brief...

Applications for charitable support doubles

The number of applications grant giving charities have received for financial and non-financial support more than doubled between March and June 2020, according to figures from the Association of Charitable Organisations (ACO). Overall, applications for support have increased by 122% since national lockdown was imposed in March 2020 compared to the same period in 2019. Over half of ACO charity members have set up emergency Covid-19 funds to help people who are struggling financially. The ACO has also revealed that 87% of its members are expecting an increase in support applications when the furlough scheme ends on 31 October 2020.
https://bit.ly/3lxKJo8

Charities failing to comply with fundraising reporting rules

A report from the Fundraising Regulator has revealed that just 21% of charities are fully compliant with the rules covering fundraising reporting requirements. Under the requirements, charities with an annual income of more than £1 million are required to include a fundraising statement in their annual report. The Fundraising Regulator analysed 187 annual reports and found that while 81% of charities did include a fundraising statement, only 21% provided all the required information. Failing to provide details on third party monitoring and how it protects vulnerable people are the main reasons why charities are not meeting fundraising reporting requirements.
https://bit.ly/2SKzWdV

New charity register to improve transparency

The Charity Commission has launched a new public register of charities in England and Wales to improve transparency. The new register has been set up to make more information about individual charities available to donors and the public. In particular, the register includes information about the income charities receive from government grants and contracts, whether charities work with professional fundraisers, and details the number of staff who receive total income packages over £60,000. The new register has also been designed to make it easier for charity trustees to access and update the information they provide to the Charity Commission.
https://bit.ly/2GSsc7n

Legacy gifting up 80% during coronavirus lockdown

Charitable donations made in wills increased by 81% between 23 March and 30 June 2020 compared with the same period in 2019, according to figures from Co-op Legal Services. Overall, legacy gifting increased by 56% over the previous 12 months, with the largest rise amid the Covid-19 lockdown. The research has revealed that donations to cancer charities are the most common legacy gifts and increased by 77% during lockdown. Donations to local causes have also increased significantly and are now the second most common type of legacy gift.
https://bit.ly/30YHQ83

Digital advertising now zero rated for VAT

Updates to HMRC VAT guidance have revealed that charities will pay lower digital advertising costs. Since September 2020, internet search adverts are now zero rated for VAT, unless the ads appear on personal social media accounts. Location targeting, which allows ads to be directly targeted at people in specific locations, regions and countries is also now zero rated for VAT purposes. The CTG has welcomed the changes and stated that charities could save millions on digital advertising costs.
https://bit.ly/3dl6Nj2

Support for inactive charities

The Charity Commission has encouraged charities in England and Wales with inactive funds to join its Revitalising Trusts programme. The programme will help dormant charities and trusts start operating again, or have their funds redeployed to similar charitable causes. Charities that have either had no income or expenditure over the last 5 years or have spent less than 30% of their total income over the last 5 years are eligible for support under the programme. Since its launch in 2018, the programme has supported 26 charities, removed 179 charities from the register and transferred £32 million of funds to similar charitable causes.
https://bit.ly/2GUesZI

Loan fund extended to help charities disrupted by Covid-19

The application deadline for the Resilience and Recovery Loan Fund (RRLF) has been extended to support more charities and social enterprises disrupted by the coronavirus pandemic. The deadline for applications has been extended by six weeks to 13 November 2020 and the maximum loan amount charities can apply for has trebled.

The RRLF provides working capital loans of between £100,000 and £1.5 million to charities and social enterprises whose normal business model has been disrupted due to Covid-19. The maximum loan term is five years, loans are interest free and no fees are payable for the first 12 months. Loans can be used to provide working capital, cover delays in trade payments and meet increased demand for services.

Charites can apply for the RRLF using the application portal on the Social Investment Business website. To be eligible, registered charities and community interest companies must be UK based, have a minimum turnover of £400,000 and have been trading for at least two years. They must also demonstrate that they were not 'an undertaking in difficulty' in December 2019.

The RRLF was set up in April 2020 to make the UK Government's Coronavirus Business Interruption Loan Scheme (CBILS) more readily accessible to charities and social enterprises. As of September 2020, the RRLF had awarded funding worth £10 million to 30 charities and social enterprises. Organisations looking to take out smaller loans of up to £50,000 can apply for funding via the Government's Bounce Back Loan Scheme.

Read more about the RRLF at: https://bit.ly/3dvTgWd

Academy reporting requirements postponed due to Covid-19

The Education and Skills Funding Agency (ESFA) has extended academy trusts' reporting deadlines for the year ending 31 August 2020. The ESFA is encouraging academy trusts to aim to meet the original deadlines, despite the challenges posed by Covid-19. The ESFA has also emphasised that the postponements are for the 2019/20 academic year only.

The deadline for submitting audited financial statements for the 2019/20 academic year has been extended from 31 December 2020 to 31 January 2021. Financial statements must be accompanied by an auditor's management letter, accounts submission coversheet and internal scrutiny annual report. The deadline for submitting accounts returns has also been extended from 19 January to 23 February 2021, and trusts will have until the end of February 2021 to publish their financial statements on their websites, instead of the end of January.

The launch date for the academy land and buildings collection tool (LBCT) has been delayed by five weeks. The tool will now be launched on 12 November 2020 and the deadline for returns will be 17 December 2020. The LBCT is an annual return academy trusts must complete and submit to the Department for Education. The return includes information about the trust's land and buildings.

The ESFA also extended the budget forecast return three year (BFR3Y) deadline from 29 July to 29 September 2020 and amended the information required, due to challenges created by Covid-19.

Read more about the postponed deadlines at: https://bit.ly/2GG7PKP

knilljames
chartered accountants

Head Office
One Bell Lane, Lewes
East Sussex BN7 1JU
Tel +44 (0)1273 480480
Fax +44 (0)1273 476941
www.knilljames.co.uk
@KnillJames

London Office
3 Queen Square
London, WC1N 3AR
Tel +44 (0)207 843 9466

If you would like further information on any of the articles in this newsletter, please contact Susan Foster or David Martin at the above telephone number or email sue@knilljames.co.uk or david@knilljames.co.uk