

# BUDGET 2008 AND GIFT AID

In what was widely hailed as a bland budget, the Chancellor did at least have some good news for charities in the announcement of a three-year transitional relief so that charities do not lose out from the reduction in the basic rate of income tax from 22% to 20%.

The relief has been made available for qualifying donations made in the tax years 2008/9 to 2010/11 and will be automatically calculated and repaid by HM Revenue and Customs. For donations received after 6th April 2008, charities should make repayment claims based on the basic rate of tax of 20%, which will be processed in the normal way when they are received, with the transitional relief being processed at the same time as the claim. Following the recent Gift Aid consultation, some welcome changes to the HMRC audit process, record-keeping requirements and general procedures have been announced, including:

- >>> Where a charity can repair errors found in an HMRC audit (for instance, by obtaining valid declarations) only the repaired error rate will be extrapolated across the whole Gift Aid claim.
- >>> The introduction of a de minimis error level of 4% below which concessions may be made on penalties for charities claiming small amounts of Gift Aid.
- >>> The introduction of a 'yellow card' system where HMRC will not seek to recover tax for earlier years in cases where the error rate is less than 4% or the tax at risk is less than £500 unless the Charity fails to take any remedial action suggested by them.
- >>> Aggregated claims for multiple small donations.
- >>> Further work to improve the training and advice on offer by HMRC including the development of a framework for alternative records systems with a view to enabling the eventual destruction of hard copies of open-ended Gift Aid declarations over six years old, and developing a web-based information service in partnership with the sector.



## CLIENT SPOTLIGHT Volunteer Centre Liverpool

"Volunteer Centre Liverpool creates understanding of and access to quality volunteering opportunities providing tailored support for individuals and organisations."

Each year Volunteer Centre Liverpool (VCL) responds to thousands of enquiries on all aspects of volunteering issues from potential volunteers and community groups / voluntary organisations. VCL provides a one-stop resource for information, advice and guidance and aims to link the skills, experience, time and enthusiasm of Liverpool people seeking voluntary work to local groups and organisations wishing to involve volunteers.

Tessa Willow has been the Chief Executive of the organisation since 1999, when they were based in shop-front premises in Lime Street and had a total of three members of staff. Today, there are nine employees operating from offices in Hanover Street and the organisation runs specific projects on youth volunteering, accredited training for volunteers and people who manage volunteers, and Tessa's own particular area of interest – finding and developing new trustees for management committees.

"Trusteeship is a particularly interesting type of volunteering and one which is often misunderstood. Some people are put off volunteering as a trustee because of fears about their liabilities, but in a well-run organisation this should not be a matter of concern. The rewards from being a trustee are enormous; it gives people a chance to develop new skills that they may not be able to do in their paid employment, particularly those people who are looking to move into managerial or supervisory roles but who may lack experience; trusteeship can provide an opportunity to work at a strategic and planning level which may not be available in their current paid role. We are always keen to hear from people who think that they may benefit from being a trustee and from those who would like to give their time to benefit a voluntary organisation."

VCL has recently secured funding from the Big Lottery Fund to run a project that aims to promote the benefits of trusteeship and to persuade local employers to give their staff some time off work to volunteer as a trustee. The idea behind the project is that everyone stands to benefit from this arrangement: the voluntary group gains a new trustee who brings with them skills, knowledge and contacts from their paid employment; the person volunteering as a trustee gets the chance to develop existing skills and to learn some new ones, thereby improving their prospects for advancement; the employing organisation of the new trustee benefits from employees who are learning new skills and the chance to generate some positive publicity for their organisation in PR terms and to contribute to their Corporate Social Responsibility policy.

Volunteer Centre Liverpool itself is looking for a new treasurer, so if anyone reading this would like to give an hour or so each month to a dynamic and growing organisation with an annual turnover of approximately £400,00, please contact: [tessawillow@volunteercentreliverpool.org.uk](mailto:tessawillow@volunteercentreliverpool.org.uk), tel: 0151 707 1113.

Volunteer Centre Liverpool is the operating name of Mersey Volunteer Bureau



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# CHARITY UPDATE

EDITION 5

## Public benefit test one step closer



Following the release in January of the Charity Commission's statutory general guidance on 'Charities and Public Benefit' all new charity registrations from 1st April will be required "to have regard to the Commission's public benefit guidance and to demonstrate their organisation's aims are for the public benefit as part of the application process." In addition, it is expected that all charities with year ends after 31st March 2009 will need to have reference in their Annual Report to how the aims of the charity are carried out, through the activities in the year, for the public benefit.

To understand what the Commission means by public benefit, the general guidance contains two key principles of public benefit and, within those principles, some "important factors that must be considered in all cases."

### Principle 1

There must be an identifiable benefit or benefits

- a) It must be clear what those benefits are
- b) The benefits must be related to the aims – Benefits not arising from work related to the aims will not be counted. If a charity has several aims, they each have to meet the requirement.
- c) Benefits must be balanced against any detriment or harm

### Principle 2

Benefit must be to the public, or section of the public

- a) The beneficiaries must be appropriate to the aims – The opportunity to benefit must not be unreasonably restricted, given the charity's aims and its resources
- b) Where benefit is to a section of the public, the opportunity to benefit

must not be unreasonably restricted by geographical or other restrictions or by ability to pay any fees charged – Restrictions that might apply include geographical limits, charitable need (e.g. age or illness), and personal characteristics (e.g. gender race or religion). The Commission will look at each case to decide on reasonability. The public who benefit can be local, national or international. Where fee-charging restricts the benefits only to those who can afford them, the benefits may not be available to a sufficient section of the public.

- c) People in poverty must not be excluded from the opportunity to benefit – A charge for services which are provided mainly to people who can afford to pay does not necessarily mean that the organisation's aims are not charitable, providing this does not exclude people from the opportunity to benefit. People in poverty must not be excluded from the opportunity to benefit.
- d) Any private benefits must be incidental – If any private benefits are gained, they must be a necessary result, or by-product, of carrying out the charity's aims (for example, the membership of a learned society for the advancement of science).

## In this issue...

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The Charity Commission has stated that it will not be prescriptive about the size of the public benefit statements, it has said that a charity saying nothing or providing a brief statement would be in breach of the reporting requirement. It is also expected that the reporting burden will be more significant for those charities above the audit threshold than those below it. With the growing focus on public benefit, it is imperative that trustees keep themselves aware of the latest developments and start thinking now about how your charity provides public benefit in your current and planned activities. By acting now, you can minimise the impact of the new reporting requirement when it comes into force.

The Charity Commission have set up a dedicated public benefit section on their website for all information regarding the public benefit test. For further information and the latest news, go to: [www.charitycommission.gov.uk/publicbenefit](http://www.charitycommission.gov.uk/publicbenefit)





## Are you managing your risk effectively?

A question often asked is how should trustees practically approach risk management within a charity. Philip Griffiths answers your questions on risk and what trustees can actually do to manage it.

### What is risk?

For charities, risk can be defined as “any event or action that may adversely affect an organisation’s ability to achieve its charitable objectives and execute its strategies.” Risk is not merely confined to the financial affairs of a charity, but instead extends to all areas of the charity’s operations. This can be seen from the examples of potential risks on the example risk register on the opposite page.

### What are the reporting requirements for charities regarding risk?

Following the adoption of SORP 2000, trustees of charities with income or expenditure greater than £250,000 are now expected to provide “a statement (as part of the Annual Report) confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems have been established to mitigate those risks.” Those charities below this threshold are also encouraged to make a statement regarding risk management as best practice.

### So what are the benefits of risk management?

Managing risk effectively can have a whole range of financial and non-financial benefits for you charity. For example, under the Stakeholder Pension Scheme legislation, charities with more than five employees are required to designate a stakeholder scheme, provide access to it for staff and facilitate contributions direct from the payroll. This is a risk, with a potential impact of fines of up to £50,000, which the Charity Commission could decide to seek directly from the trustees rather than from the charitable funds. While the financial benefits to the charity of having a stakeholder scheme are clear from the potential penalties involved, there are also non-financial benefits in that the provision of extra benefits to staff may assist the charity in retaining good employees in an increasingly competitive employment market.

### How should a charity approach risk assessment?

The way we advise our clients to approach risk management is as follows

1. Set up a dedicated team to review risks. Include trustees, management, other staff, possibly even beneficiaries. This drive to involve all parts of the organisation in risk management is crucial to its success.
2. Identify and brainstorm what the risks facing the charity are.
3. Identify what is in place to mitigate the risks (e.g. policies and procedures, insurance cover etc)?
4. Discuss whether further precautions are possible and necessary?
5. Ensure that someone in the organisation is responsible for each risk. If it is unclear who is responsible, then the risk is not being managed effectively.
6. Calculate gross risk by awarding a score from one to three (with three being the most likely or severe) for the likelihood of risk and a similar score for severity of the impact and then multiply these two scores together. As a guideline for gross risk, a score of six or nine is high, a score of three or four is medium, and a score of one or two is low.
7. Determine what actions need to be taken to deal with the risks and prioritise these actions based on the gross risk score.
8. Record all risk assessment on a risk register which is a working document and will always be a work-in-progress.
9. Review and reassess risks using the risk register on a regular basis.

## What is a risk register and what should appear on one?

Below is an example risk register which is an excellent model to use when assessing risk, and a couple of examples of risks that have been added to the register for your reference:

Risk Area	Likelihood of occurrence	Severity of impact	Gross risk	Controls	Responsibility Required	Further Action	Review Date
A risk that cash is being misappropriated	Medium (2)	Low (1)	2 = Low	<ul style="list-style-type: none"> <li>• Cashing up procedure</li> <li>• Imprest system</li> <li>• Petty cash reconciliations</li> <li>• Keep securely</li> </ul>	Finance Manager	<ul style="list-style-type: none"> <li>• Alternate cash counters</li> <li>• 2 people do count</li> <li>• Review location of cash</li> </ul>	
A risk that health and safety regulations are breached	Medium (2)	High (3)	6 = High	<ul style="list-style-type: none"> <li>• H&amp;S Manual</li> <li>• Fire procedures</li> <li>• Signage</li> <li>• First Aid Kit</li> <li>• Accident book</li> </ul>	General Manager	<ul style="list-style-type: none"> <li>• H&amp;S Audit</li> <li>• Electrical testing</li> <li>• Access</li> </ul>	

### What possible courses of action could we take towards risk?

There are a number of possible responses you could take towards risk:

- >> Avoid the risk altogether (e.g. stop on street collections)
- >> Transfer the risk to someone else (e.g. outsourcing of key services)
- >> Spread the risk by sharing it with others (e.g. sub-let leased premises)
- >> Introduce tighter controls on activity to cut down on risk (e.g. weekly cash counts rather than monthly)
- >> Insure against the risk occurring
- >> Provide financially for the risk by setting aside reserves
- >> Accept the risk as being unlikely and/or low impact and review annually

## CHANGES TO PROPERTY LEGISLATION COULD HIT CHARITIES

The Ethical Property Foundation is warning charities to be wary of landlords offering them cheap short-term leases. This practice is expected to grow as from 1st April full business rates will be levied on offices left empty for more than three months, leaving landlords to consider offering cheaper rates to fill their buildings. Victoria Howse, property advice manager at the foundation advises “Just because there is low, or even no, rent doesn’t mean it’s a good deal. There are often hidden costs.”

Whilst on the subject of property, the Planning Bill (which is currently before Parliament) contains a plan for the Community Infrastructure Levy (CIL). This is the government’s latest attempt to tax the growth in the property values after planning permission has been granted. Under current plans, the tax rate will be set individually by local authorities and there is no exemption for charities who construct buildings for its own use. We’ll keep you posted on further developments with CIL.

