

Autumn Edition

October 2009



Charity & Education Newsletter

## Independent Schools - Has the bubble burst?

Many independent schools are reporting a significant decline in pupil numbers as a result of the economic climate, some unfortunately having to cease operations or merge with competitors.

We are aware that September 2010 may be a crunch time to assess exactly where schools stand in relation to the credit crunch. The thought process on 2010 being that parents affected will know at this point whether they can really sustain (or commence) the affordability of private education for their children.

For schools which find themselves in the unfortunate position of falling pupil numbers here are some key factors to consider:

1. Think about containing costs rather than increasing fees

2. Do not let buildings and grounds deteriorate, they are one of your key selling points
3. Set a maximum fall number at which point you agree to take decisive action
4. Deal with fundamental issues rather than just looking at short term solutions (e.g. asset sales)
5. Ensure that the Governing Body are regularly updated on the situation. More regular meetings may be needed as the once a term norm could mean that important decisions are not being made promptly enough.

There are some key performance indicators which will highlight at an early stage whether your school has some potential financial problems. Please contact us if you would like to find out more about these.



*Welcome to our Autumn Charity and Education Newsletter. It has been a challenging time in the sector with many charities feeling the pinch of the economic climate. It is times like this that charities which are well governed, think strategically and are flexible come to fruition. In this edition we cover many areas which will be of interest to all charities including risk management, reserves policy and some employment matters to be aware of. We also highlight key factors that independent schools should consider if they are feeling the effects of the climate on their pupil numbers.*

*As always please contact any of our team if you have any questions, we will be pleased to hear from you.*

Mark

Mark Cummins  
Charities & Education Partner

# Employment Matters - News Update

## Termination Payments

Most people are aware that redundancy pay is tax free up to a limit of £30,000.

However, it is not so widely known that some other payments made when employment is terminated (for whatever reason) can sometimes be paid free of tax and national insurance.

Provided there is no contractual entitlement to a payment, the chances are that the costs can be reduced by taking advantage of this for payment in lieu of notice and other compensatory payments.

Your tax adviser should be able to help you with specific scenarios. All circumstances differ so we are not attempting to set everything out here.

## PAYE codes

Our payroll bureau manager reports that many employees expect her to be able to leave codes issued by

HMRC to one side and not implement them while they appeal and get them corrected.

Of course, it is great to be able to help someone who has been on the receiving end of a frustrating error by doing this – but beware. HMRC requires employers to act on their instructions in relation to tax deduction, so if you ignore a code and it turns out that HMRC got it right – you may find that you end up paying the tax. This is a risk if the employee leaves or if the tax year ends before the position is clarified by HMRC.

We suggest that if the employee cannot get an inaccurate tax code amended in time for the payroll run, and it is near to the end of the tax year, a better course of action would be to use the new code, then make a loan to the employee for the approximate amount that you agree may have been over deducted. Obtain your employee's agreement to the loan being deducted from the payment in the month when the tax

code is corrected, or from final salary if they leave before then.

## PAYE Review Visits

HMRC are sending out their Inspectors in ever increasing quantities to review payrolls and to try to pick up errors and therefore increase the amount going in to the coffers for the Exchequer.

They look for benefits in kind not being included on P11d returns, check record keeping to support any P11d dispensations, casual employees who should be on the payroll (cleaners are a favourite), round sum allowances (including payments to volunteers) which have not been put through the payroll, errors on Statutory Sick and Maternity Pay etc – a myriad of other things too.

We can offer a health check, to make sure you are getting it right. Just contact Mark Cummins or Sylvia Spencer to make arrangements. The costs vary depending on the size of payroll but remember – HMRC can look back for six years if errors are picked up so tax and National Insurance can mount up quickly if they find anything on a visit.



The economic conditions have meant many more charities are looking at different ways of generating income. Our next Breakfast Club meeting on Tuesday 3 November will address the area of charity trading and the potential tax pitfalls charities need to be aware of. It will cover factors such as:

- What is trading?
- What are the corporation tax and VAT rules on trading?
- Is a separate trading company needed?
- What are the Charity Commission rules on trading?

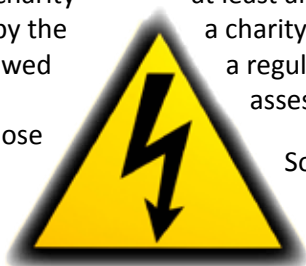
If you are interested in attending please contact Natalie Wiggins to book your place, [natalie@russellnew.com](mailto:natalie@russellnew.com)



# SORP 2005 Risk Management - Is Yours Still Relevant?

SORP 2005 (paragraph 45) requires charities to make a statement in their trustees 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 manage those risks”.

Our experience has shown us that many charities fail to update their risk management assessment on a regular basis, with some not having looked at it since it was first prepared under SORP 2000!



In our opinion trustees should not be making such a statement in their report unless this is reviewed on at least an annual basis. The risks a charity is exposed to change on a regular basis and hence the assessment needs to reflect this.

Some charities have embraced the concept of risk management and have used it successfully as part of their strategic development of their charity.

A new requirement under the Companies Act 2006 is that charitable

companies which exceed the small company size\* regime must include a description of the principal risks and uncertainties facing the charity (Companies Act 2006, S.417).

\*A charitable company is defined as a small company provided that it does not breach any two of the following conditions:

1. Income less than £6.5M
2. Gross assets less than £3.26M
3. Less than 50 employees

# Reserves Policy - Does Yours Reflect Your Current Financial Circumstances?

Another key area that many charities are reviewing in great deal at the moment is their Reserves Policy. In fact charities should be looking at this on an annual basis anyway to ensure that the policy is relevant and reflects their current financial model.

Here is a reminder of what the policy should cover:

SORP 2005 sets out the disclosure requirement in the trustees' report for a charity's reserve policy.

Paragraph 55 (a) states that the financial review within the trustees' report should contain a policy on reserves stating the level of reserves held and why they are held. Where material funds have been designated, the reserves policy statement should quantify and explain the purpose of

the designations and, where set aside for future expenditure, the likely timing of that expenditure.

In the SORP the term 'reserves' describes that part of a charity's income funds which is freely available. Available meaning to spend once it has met its commitments and covered its planned expenditure.

Charity reserves therefore excludes:

- Endowment funds
- Restricted funds
- Income funds which could only

be realised by disposing of fixed assets held as needed for charity's own use

- Any designated funds whose purposes are genuine

We would recommend that the policy is reviewed as part of the finalisation process for year end accounts.



For charities which are fortunate to hold significant free reserves, remember that the Charity Commission's threshold for querying high free reserves is for those with greater

than three years total expenditure in hand. Such charities will need to justify their reserves level.

Russell New is recognised as a leading provider to the charity and education sector, offering audit, accountancy, governance and related services. Working with over 75 organisations throughout the South East we have achieved this recognition by operating in partnership with our clients, helping them achieve Best Practice in all areas of compliance and bringing Added Value to everything that we do.

# As specialists, we **understand** your **needs**

## Business advice and **value** for money

Our ability to provide in-depth, industry specific advice gives charities and schools exceptional value for money.

This is the key to the service we offer all our clients. As a team based in one location we can offer you a full range of services, all under one roof.

Having worked with charities for many years, Russell New has acquired an extensive accumulated knowledge and understanding of the sector. We use this knowledge proactively to assist and develop organisations, offering practical solutions to many of the issues you may face.

Our services include:

- Audit and accounting
- Tax planning (including VAT and Gift Aid)
- Governance (including trustee training and induction, policy setting and risk management)
- Merger due diligence
- Benchmarking
- Payroll

In addition to these, we offer a range of business advice and development services.