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Charities & Education

Forrester Boyd
CHARTERED ACCOUNTANTS

Updated guidance for charities in financial difficulties

The Charity Commission for England and Wales has published updated guidance for trustees in charities that are facing financial difficulties. The guidance explains the actions trustees should take to review and improve a charity's finances. It also explains what they must do if a charity is insolvent or at risk of insolvency.

The Charity Commission has urged all trustees, even if they are experienced, to read the updated guidance, which is intended to be more accessible and easier to use. It is split into separate sections to help trustees find the information they need.

The first section explains the importance of actively managing a charity's finances so that any potential problems can be identified and addressed at an early stage. According to the guidance, a charity's financial position should be a standing agenda item at trustee meetings and sent to each trustee before meetings.

Every trustee is jointly accountable for understanding and managing the charity's financial position and performance, even if it has an experienced financial expert in place with responsibility for financial decision-making.

To determine whether a charity is in financial difficulty, trustees should ensure they have an up-to-date cashflow forecast and a balance sheet showing its assets and liabilities. If these reveal that the charity is facing financial problems, trustees should consider actions such as minimising costs, reducing services to beneficiaries and launching fundraising appeals. If necessary, trustees should also review a charity's use of assets and reserves, or consider closing the charity or changing the way it operates, for example by merging it with another charity.

For charities in severe financial difficulties, the guidance includes a checklist to help trustees determine whether their charity is insolvent or at risk of becoming insolvent. The remaining sections of the guidance explain the processes that trustees of insolvent charities are legally required to follow.

Although some of these processes differ depending on which legal structure the charity has (ie whether it is a charitable company, a charitable incorporated organisation, or an unincorporated association or trust), the guidance clarifies that all trustees have a primary duty to pay the charity's creditors, even if this means ending some or all of the services that the charity provides.

Trustees should also seek professional advice, for example from an insolvency practitioner. In some cases, they may be required to report their insolvency to the Charity Commission as a serious incident.

The updated guidance is available at: https://tinyurl.com/5pmtum4w

Charities & Education

FCA report reveals banking difficulties for charities

The Financial Conduct Authority (FCA) has published a report revealing the difficulties charities have faced when dealing with banks. In particular, charities reported problems with meeting the requirements that banks put in place to satisfy their due diligence obligations. The report, which was published in September 2024, revealed that many charities faced difficulties when opening a payment account.

For example, banks have financial crime-related responsibilities and procedures which must be followed when a new bank account is opened. However, the procedures were often difficult for charities to complete. This was due to charities having complex governance structures or large numbers of trustees, which made it harder for banks to carry out due diligence.

Charities also experienced difficulties when maintaining an account due to the information requested by banks. For example, banks were requiring all account signatories to attend a branch in person if a charity wanted to change its signatories. To address the issues, the FCA is holding roundtable talks with banks and charities. It has also engaged with UK Finance, which has launched online guidance to help charities get the banking services they need.

A separate survey carried out by the Charity Commission for England and Wales in March 2024 found that 32% of charities faced issues when trying to update their signatories and 18% had difficulty trying to open a new bank account. Overall, 42% of charities who responded to the survey experienced poor service from their bank and 14% found it difficult to understand what their bank required of them. Responding to the FCA report, the Charity Commission has encouraged charities to contact the Financial Ombudsman Service if their bank ignores their complaints or if its response is not satisfactory.
The FCA report is available at:
https://tinyurl.com/3knrkazt

Market need driving academy trust mergers

The Confederation of School Trusts believes market need rather than official government targets are driving mergers between academy trusts and boosting the size of multi-academy trusts (MATs). Factors for merging include greater access to in-house expertise, professional development opportunities and capital.

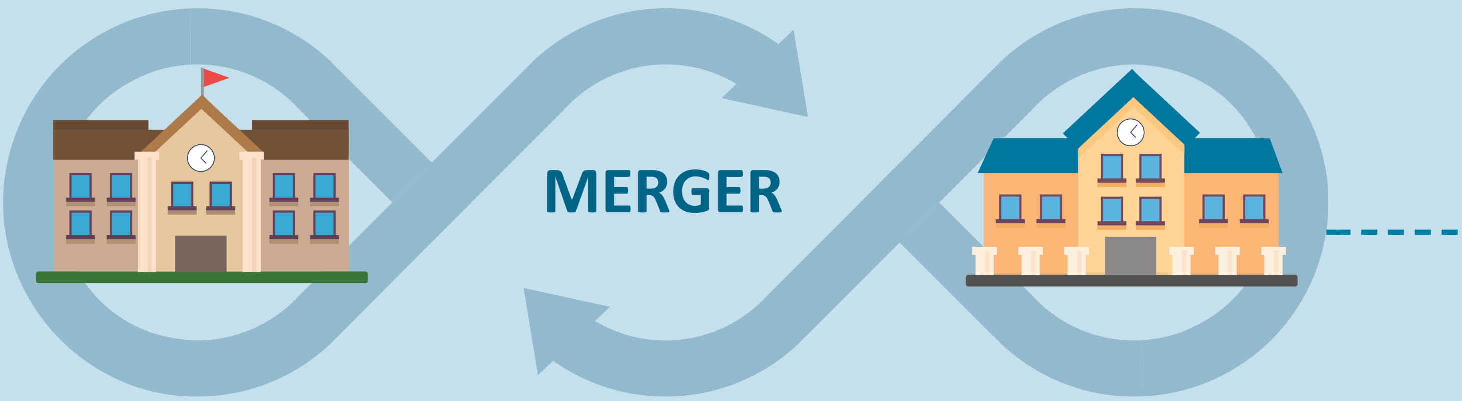
Analysis by Schools Week has revealed that academy trusts had an average of 4.8 schools in 2024, up from 3.1 in 2019. Between 2019 and 2024, the number of academies rose by 26% to 10,839, while the number of academy trusts fell by 19% to 2,272. This was mainly due to the number of single academy trusts falling by 32% to 1,100. The number of MATs fell by just 1%.

Some academy leaders are assessing the resilience of their own trust and seeking to join another if it will be of benefit, adding that government targets are not a good reason for merging.

If schools continue to join MATs at the current pace, Education Datalab estimates that every secondary school will have joined a MAT by 2031 and that all schools will be part of a MAT by 2041.

The Association of School and College Leaders has urged the Government to clarify whether the ambition for all schools to be part of a MAT still stands. The Education Secretary has described the Government's priority as addressing the differences between academies and maintained schools and not wholesale structural reform.

Read more about this story at:
https://tinyurl.com/2nb2xc25



In brief...

More academies planning to expand portfolios

Two-thirds of academy trusts are planning to take on more schools over the next 12 months to help improve their financial stability. This is according to a survey of 417 chief executives by the Confederation of School Trusts, which revealed that over 80% of respondents believe financial stability is the biggest challenge for 2024/25. Falling pupil numbers and more trust leaders planning to retire are both contributing to the financial challenges facing academy trusts. As a result, 45% of trusts expect their reserve levels to fall, while 28% believe they will decrease considerably.

Read more about the survey at:
https://tinyurl.com/4hrcx8rx

Fall in charitable giving by FTSE 100 companies

Charitable giving by FTSE 100 companies declined by 34% in real terms between 2014 and 2023, according to a report from the Charities Aid Foundation. The latest annual 'Corporate Giving Report' reveals that, while the combined profits of the FTSE 100 have increased by 49% since 2014, total donations decreased by 13% to £1.82 billion in 2023. If donations had risen at the same rate as profits, the FTSE 100 would have donated an estimated £3.13 billion.

Read more about the report at:
https://tinyurl.com/2pcbfzs2

Mainstream schools turning to trusts for SEND support

An increase in the number of children with special needs is encouraging mainstream schools to join multi-academy trusts (MATs) that specialise in SEND (Special Educational Needs and Disabilities). According to industry experts, mainstream schools joining a specialist MAT can access the support needed to adapt their provision, ensuring that the needs of all pupils can be met. Local authorities across England have also urged the Government to increase investment to help mainstream schools better support pupils with complex needs, while reducing the reliance on specialist school places.

Read more about the increase at:
https://tinyurl.com/2ckr8vt8

Updated decision-making guidance for trustees

The Charity Commission for England and Wales has updated its guidance on decision-making for trustees. While the legal requirements and expectations set out in the guidance are unchanged, it now uses 'plain English' and is more concise. The guidance sets out how charity trustees can demonstrate that they have followed the seven decision-making principles developed by legal rulings.

Read more about the updated guidance at:
https://tinyurl.com/3av3bkvc

Consultation on new Code of Fundraising Practice

The Fundraising Regulator has consulted on its revised Code of Fundraising Practice, which is expected to come into force from 2025, with a six-month transition period. The regulator sought feedback to ensure that the new code accurately reflects the current fundraising landscape, as well as in the future. The new code has been streamlined and sets out principle-based rules for fundraising.

Read more about the new code at:
https://tinyurl.com/mr3f9k7t

Charities struggling to find operational space

Almost three-quarters of charitable organisations are finding it moderately or extremely difficult to find physical spaces in which to deliver their services. A lack of property knowledge to negotiate with commercial landlords is one of the main reasons why charities can struggle to find space. In addition, the charity sector has traditionally occupied older, less energy-efficient buildings that local authorities are keen to sell. As a result, charities are increasingly offered insecure tenancy agreements that allow local authority landlords the flexibility to sell.

Read more about the difficulties at:
https://tinyurl.com/mwj3pbuz

Half of youth VCS organisations would fail in six months if funding stopped

Nearly half of voluntary and community sector (VCS) organisations in the youth sector have under six months' reserves. This is according to the National Youth Sector Census published by the National Youth Agency.

The census revealed that in 2024, 46% of VCS organisations had insufficient reserves to operate beyond six months if their funding ended, a year-on-year increase of 11%. The increase highlighted the growing proportion of VCS organisations that are struggling financially.

While half of the organisations in more deprived areas had less than six months' reserves, this figure was a third in less deprived areas. In the least two deprived areas, 37% had reserves that would allow them to operate for over a year, compared to 24% in more deprived areas.

Increased operating costs were cited as the biggest challenge by nearly eight in ten respondents, followed by increased demand for existing services (69%) and a decline in funding or operating budgets (59%).

VCS organisations providing mental health services were most likely to experience greater demand than any other targeted service, with 82% of organisations reporting an increase in demand. Two-thirds (66%) of organisations providing services relating to violence and crime saw increased demand, as did 64% of organisations addressing employment, training and skills for work.

Staff recruitment was a challenge for 54% of respondents, and 49% struggled with volunteer recruitment. Staff and volunteer wellbeing was a challenge for 34% of respondents.

Read more about the survey here: https://tinyurl.com/bdz8bxfj

Public trust in charities at highest level in a decade

In 2024, public trust in charities was at its highest level since 2014, according to research by the Charity Commission for England and Wales. The Commission found that information about how money is spent by a charity is the most important factor for most people, followed by knowing that it achieves its purpose, makes a difference and adheres to high ethical standards.

Charities scored 6.5 out of 10 for trust, with 58% of people having 'high' trust in charities, making charities the second most trusted group in society after doctors. This is compared to a trust score of 6.3 in 2023 and a score of 5.5 in 2018 when the sector was negatively affected by highly publicised scandals.

Around half of people had heard of the Charity Commission, with 19% saying they knew it well. Awareness of the regulator tended to correlate with higher levels of trust (63% compared to 52%).

The challenging financial climate has negatively impacted charitable giving, while reliance on charities has increased. Nearly half (47%) of people had raised funds or donated money or goods, down from 62% in 2020. The percentage of people receiving charitable services, such as food, medical support or financial assistance, increased to 9% from 3% in 2020.

A survey into charity trustees' attitudes towards their role, also published by the Charity Commission, found that 61% agree that a charity's standards of conduct should be higher than those of other organisations. It also found that, while trustees tended to have high confidence in their responsibilities, they were less confident on issues such as dealing with conflicts of interest. Charity trustees were polled for the first time on their charity's use of AI. While usage was low overall (3%), it was more common in charities with incomes of over £1 million, standing at 8%.

Read more from the survey here: https://tinyurl.com/4fmy89av

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