pem.

Coronavirus & charities.

Charities & Not for Profit newsletter

Coronavirus

PEM has already issued a free download on government support measures for businesses as a result of COVID-19. This is available on our website. The impact of these measures for charities and not for profits may not be clear so this special newsletter summarises those which may be available to charities.

The newsletter also covers:

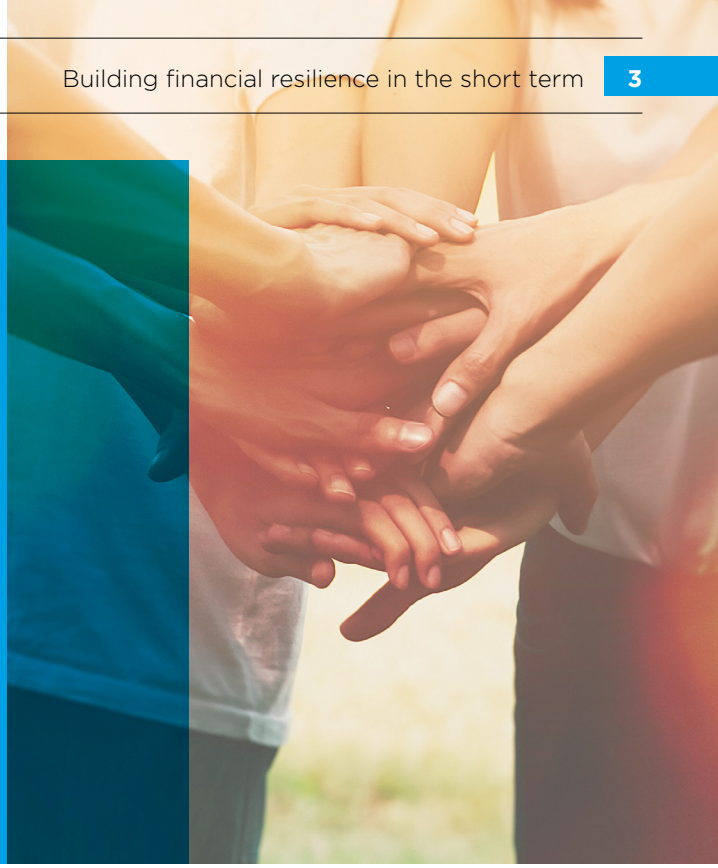
- What you need to consider in order to build up financial resilience in the short term
- Links to further advice which may be of help
- The implications on the crisis for audits and financial reporting

New information is emerging daily so please visit our website where updated information will be shared with you.

Client assistance & support

The team at PEM may be working from home, but we still aim to continue to provide an excellent service to you. More information on PEM's response to coronavirus may be found **here**. If you have any questions or concerns please do not hesitate to speak to your PEM contacts directly.

Building financial resilience in the short term



Liquidity/cash flow

A priority for any charity must be to review its cash position to ensure it has the cash available to continue to operate. If you rely on income from voluntary sources or trading, your trading may have had to cease altogether and your voluntary income such as donations and grants may fall. This will be especially worrying for charities with banking covenants. Without cash you may no longer be able to operate.

Actions to consider include:

- Prepare a cash flow projection based on current information. More than one cash flow may be needed to take account of alternative scenarios. The projections should be updated as more information becomes available. Bear in mind the impact of the government's proposed interventions on your cash flow.
- Improve invoicing and debt recovery to ensure you are paid quickly.
- Consider your costs; all discretionary and non-essential costs should be reduced as far as possible. Fixed costs need to be properly managed. These include wages, rent and utilities.
  - A charity's staff can be its largest cost. If projects or operations have to be curtailed, you may have to make hard decisions regarding your staff to reduce the payroll cost. This is a highly regulated area and specialist advice should be sought to ensure you do not breach employment law. If your projections show that you are facing cashflow problems, seek to defer PAYE & NI payments (see Time to Pay below).
  - Contact your landlord to see whether a rent holiday is feasible.
  - Contact your utilities who may be willing to offer payment holidays or delayed bills.
- If cash is tight, approach your bank to see what help is available. Many of the major banks have already pledged mortgage repayment holidays, temporary increases in credit card limits, waivers of fees on early access to fixed savings accounts and late credit card, mortgage and loan payments.

Business continuity planning

In the short term, as a charity you may need to revisit your strategy to determine if it is achievable. Any decision such as closing your visitor attraction or cancelling an event, will have both financial and reputational repercussions. Where there is so much uncertainty, it may only be possible to consider shorter financial planning cycles.

Consider all your critical supply chains and assess their vulnerability so that plans can be made before a problem occurs.

Where decisions have to be made quickly, determine who within the senior management team, and how those decisions will be made. This is particularly important if team members will be unavailable to contact.

Finally share information frequently between the senior management team and the trustees so that you are all working with up to date information.

Support currently available to charities

Job retention scheme

A COVID-19 job retention scheme has been created. Any employer will be eligible for the scheme and they can contact HMRC for a grant to cover the wages of their employees. These grants will cover 80% of the salaries of these retained workers, up to £2,500 per month. The scheme will be open initially for 3 months and it will be extended if necessary. There is no limit to this scheme and HM Treasury will pay as many grants as is necessary. It will be running within weeks and payments should be issued by April.

However, it is important to note that the grant will only be used to cover most of the wages of people who are not working but are furloughed and kept on payroll, rather than being laid off. This could potentially be a big help in terms of expenditure for charities, but, unlike hospitality or leisure organisations, many charities will not necessarily be laying people off or closing down (except perhaps in the case of charity shops).

The bigger problem is the catastrophic drop in income and other fixed costs like rent. CTG has expressed concerns that this could create a perverse incentive for charities to shut down their operations or furlough staff that could otherwise be providing useful support in other ways, not least to try and generate new income streams. An innovative solution could be to have staff furloughed but to get them to volunteer for their own role while on unpaid leave, but this is clearly not that satisfactory and there must be a simpler way to just support all charities facing severe income pressures.

Rates relief

The rates relief announced in the Budget will be relevant to those charities and their subsidiaries that currently pays rates, even at the reduced rate.

For the year 2020 to 2021, it was announced that the Business Rates retail discount in England will be increased to 100% for properties with a rateable value of below £51,000. The relief has also been extended to the leisure and hospitality sectors, such as theatres, museums, gyms, hotels and pubs etc and this includes charity shops, with a rates holiday for the next 12 months for businesses in this sector irrespective of rateable value.

Furthermore, for businesses with a rateable value below this level, a further cash grant of up to £25,000 per business will be available to bridge any gap in meeting their costs.

Please note that if you received a retail discount in 2019/2020, you should be rebilled by your local authority as soon as possible under current guidance.

If you intend to apply for the newly expanded relief,

you will need to apply to your local authority as soon as possible, and all enquiries should be directed to them.

The Charity Tax Group have asked the Chancellor to extend this Expanded Retail Discount to all charity property, but no announcement has yet been made on this point.

Small business grant funding

If you currently claim Small Business Rates Relief or Rural Rate Relief, the government will provide a one-off grant of up to £10,000 to help meet your ongoing business costs.

Time to Pay

The government has stated that all businesses in financial distress and with outstanding tax liabilities may be eligible to receive support with their tax affairs through HMRC's time to pay service.

It is important to note that you must have outstanding liabilities to apply for a time to pay arrangement, and HMRC will agree these on a case-by-case basis tailored to the circumstances of the taxpayer. However, if you have impending tax liabilities due such as PAYE/NIC, VAT or Corporation tax, and you will struggle to meet these, trying to put measures in place now would be prudent.

In particular, for payroll, you should submit your payroll as normal, so the liability appears on HMRC's records and then ask to defer the payment citing financial difficulties. They should allow this with the view that a monthly payment plan is established. You will need to contact them each month to do the same for each month's payroll.

The number to call if you feel you will be unable to pay your tax due as a result of COVID-19 is 0800 015 9559.

Coronavirus Business Interruption Loan Scheme (CBILS)

For SMEs the Government has launched the Coronavirus Business Interruption Loan Scheme (CBILS) in light of the outbreak to be delivered by the British Business Bank (BBB). This will temporarily replace the Enterprise Finance Guarantee. Under this scheme the government will guarantee up to 80% of the loan to the lender only and will not charge either party for this guarantee.

It is described as offering attractive terms to any business that requires cash, with loans now of up to £5m (initially £1.2m) and with no interest charged for the first twelve months of the term of the loan.

CBILS will support the following business finance products:

- Term facilities
- Overdrafts
- Invoice finance facilities
- Asset finance facilities

To be eligible for support your business must meet the following criteria as set out by the BBB:

- Be UK based
- Turnover of no more than £41m per annum
- Operate within an eligible industrial sector [certain ineligible sectors are highlighted in state aid legislation]
- Have a sound borrowing proposal but insufficient security to meet a normal lender's requirements
- Be able to confirm you have not received de minimis state aid beyond €200,000 equivalent of the current and previous two fiscal years.

It is clear that this is a last resort if you are not able to obtain finance in the normal way, and if you are interested in this scheme you must approach one of the 40+ accredited lenders with your borrowing proposal.

This scheme is available to charities if they can show that 50% of their income derives from trading activities. Income such as selling investments, letting land and the sale of goods donated to a charity will not be classed as trading income. At this stage it is not known whether the delivery of public service contracts would be classed as trading.

Full details of the scheme can be found **here** along with the accredited lenders.

Statutory Sick pay – support for businesses paying sick pay to employees

The eligibility for paying SSP to employers has been widened so that it covers costs for employers from the first day of sickness absence due to COVID-19, where they have had to self isolate due to government guidelines or are caring for people in the same household with COVID-19.

While it is still unclear as to exactly how this will operate and the mechanism for reclaiming SSP, the

Government has said they will work with employers over the coming months to establish this. The eligibility for the extended criteria will be as follows:

- The refund will cover up to a maximum 2 weeks SSP per eligible employee who has been off work because of COVID-19 (£94.25 per week currently, £95.85 per week from 6 April 2020)
- Employers with fewer than 250 employees will be eligible (determined by the number of people employed as at 28 February 2020)
- Employers will be able to reclaim expenditure for any employee who has claimed SSP as a result of COVID-19 per the new eligibility criteria
- Employers should maintain detailed records of staff absences and payments of SSP, but employees will not need to provide a GP fit note (an alternative to this will be issued in the coming weeks)
- Eligible period for the scheme will commence from the day after which the regulations on the extension of SSP to those staying at home come into force.

Support for the self-employed amidst the COVID-19 outbreak is also being looked at and a new style Employment and Support Allowance will be payable for people directly affected by COVID-19 or self isolating according to government advice from the 1st day of sickness and not the 8th.

Off-payroll working

The reforms which were due to be implemented from 6 April 2020 have been deferred to 6 April 2021.

Insurance

Some of you may have taken out business interruption insurance which includes cover for a pandemic. It was uncertain whether insurance companies would pay out on this cover as COVID-19 didn't exist at the time when the cover was put in place. The Government have indicated that the action they are now taking is sufficient for a company to trigger an insurance claim if your insurance has pandemic cover. However, the Association of British insurers has responded with the following statement 'Standard business insurance policies are designed and priced to cover standard risks, not those that are very unlikely, such as the effects of COVID-19.' At this stage, you should assume that you cannot claim under your insurance policy and plan on this basis. In any event, the government has indicated that, for those with no such cover, further help will be provided and this will be finalised in the coming days and weeks.

Links to further advice

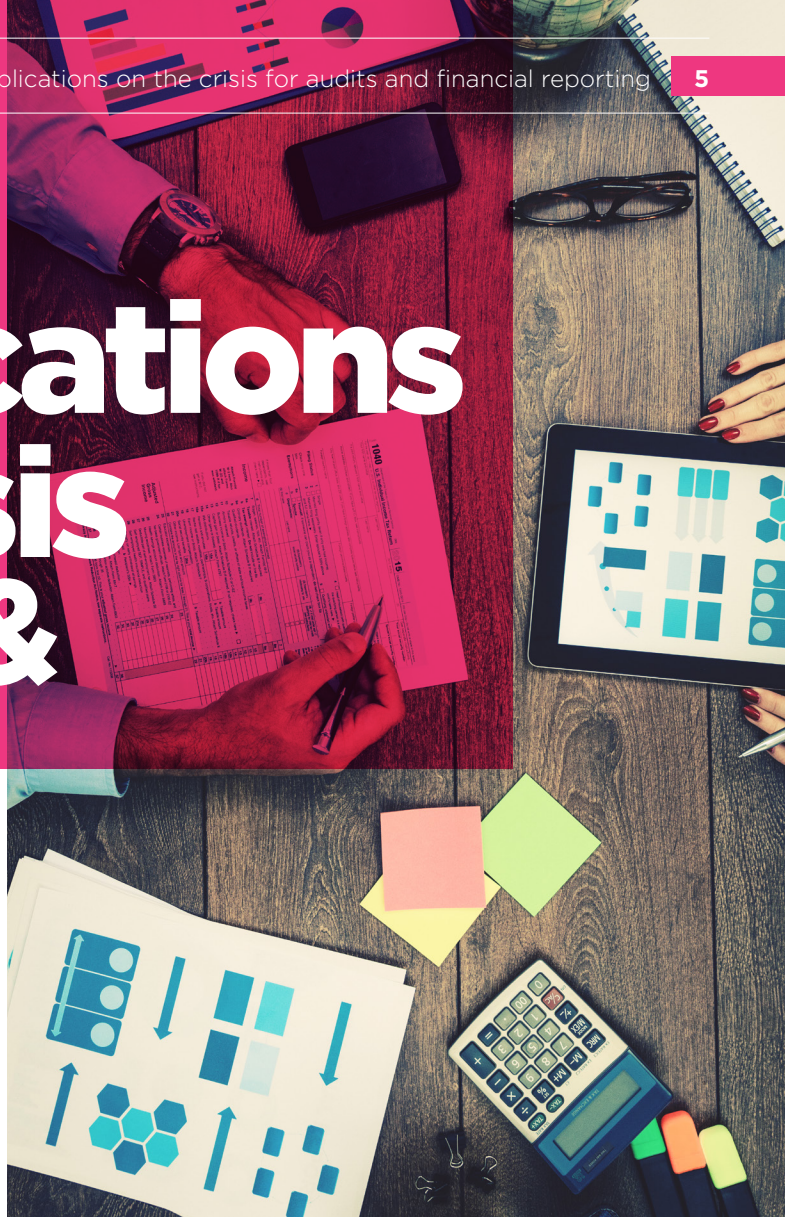
The Charity Tax Group have an update page providing support for charities during the pandemic which can be found **here**.

The Charity Finance Group have a similar page which can be found **here.**

The Institute of Fundraising has produced advice on public fundraising operations which can be found **here**.

The NCVO is offering advice on matters such as governance and safeguarding which can be found **here**.

The implications on the crisis for audits & financial reporting



Charity Commission: Annual return filing: The Charity Commission has **announced** that any charity that needs an extension to their annual return filing deadline can contact the Charity Commission to ask for one.

Companies House: Accounts filing: For those charitable companies, Companies House has advised that if it becomes apparent immediately before the filing deadline that accounts will not be filed on time due to companies being affected by coronavirus (COVID-19), companies may make an application to extend the period allowed for filing. Companies House advise that companies should act before the filing deadline. The law presently gives a three-month extension, but normally it is Companies House policy to not allow extensions unless there are extreme circumstances.

Audit and accounts: We have already, or will shortly contact, all our audit clients whose audits are planned to commence in the next three months to discuss the audit process and how we plan to conduct the work remotely.

All charities preparing their annual trustees' report in this period will need to consider what the implications of coronavirus are for their organisation. Areas to consider include the impact on achievements and performance in the year; key risks and uncertainties; changes to reserves policy; and future plans.

It may also have implications for financial sustainability and ultimately the charity's ability to continue as a going concern.

Going concern: The definition of going concern, the respective responsibilities of management and auditors, and the implications for the audit report have not changed as a result of the coronavirus pandemic.

However, coronavirus will have a significant impact on whether many organisations, businesses and charities, continue to be a going concern. Even those that continue to be a going concern may face material uncertainties as to whether they can continue as such.

Each charity will have a different set of circumstances and so each will have to be assessed based on its own situation.

It is management's responsibility to make the assessment as to whether the entity is a going concern. In making this assessment, management must consider all information that is available about

the future, which is at least for a period to twelve months from the date when the financial statements are authorised for issue. We would expect management to be able to support its assertion with detailed forecasts, updated until the financial statements are authorised for issue to reflect the latest information. As set out above, these forecasts should reflect potential scenarios and managements plans.

If the charity is a going concern, then the financial statements should be prepared on that basis; if not, then they should be prepared on a basis other than going concern.

There may be a number of charities that were going concerns at their year end but the impact of coronavirus post year end is so severe they are no longer. In these circumstances the going concern basis will no longer be appropriate.

As auditors, our responsibility is to obtain sufficient appropriate evidence from the charity concerned on the appropriateness of management's use of the going concern basis and, based on that information, to conclude whether a material uncertainty exists. It is up to management to make the initial assessment, providing the auditor with up to date forecasts, cash flows, sensitivity analysis, coronavirus contingency plans and impact assessments to support that assessment.

The implications for the auditor's report will depend on the audit evidence obtained, the basis of preparation adopted and the disclosures made by management in the financial statements.

If you are unwilling to disclose material uncertainties, we may have to consider issuing a modified auditors report. With so much uncertainty now, it might be appropriate to consider delaying the approval of the financial statements until there is more certainty about the impact of coronavirus.

If you believe the potential impact on sustainability is severe, please contact us as soon as possible.

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