Price Bailey
CHARTERED ACCOUNTANTS

Winter 2025

Charities and not for profit newsletter

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Welcome

Welcome to our Winter 2025 edition of the Charity and Not for Profit Newsletter, which has continued as a blog series over the year on our website. This edition brings together recent articles published on our website into a newsletter.

It includes the following articles:

Please do not hesitate to contact us if you need more information on anything we have raised.

This newsletter focuses on fraud and cybercrime as threats faced by charities remain high and it is a must read to critique your action plan. We also have articles which look at financial planning and reserves as finances remain tough in the sector and the Autumn Budget 2025 brings increased costs for virtually all from April this year. 2025 is also when we will finally see the Charities SORP being published and so do keep an eye on our website for events and newsletters after Easter.

The next Charities SORP and FRS102 update

The timeline for the issue of the next Charities SORP is now known following a recent annual sector update from the Charity Commission.

The planned timetable is now for the Charities SORP to be issued in March 2025 for a twelve week consultation period. Not much is being given away in advance of the issue of the SORP, however it is known that:

New three tier application

The Charities SORP draft will propose a new tier to the current two tier structure of the Charities SORP. This new tier is being introduced so that the Charities SORP and its application is more proportionable based on the size of the charity. It was always anticipated that there would be a new largest tier introduced which would only apply to the largest charities and require more disclosure from them as a result. It is therefore anticipated that this is planned to be introduced in the next Charities SORP.

Trustees report module 1

The Trustees report module is being extensively rewritten. What the changes are and how these will affect charities is yet to be established.

Changes arising from new FRS102

Whilst we wait for this draft Charities SORP, it essential for charities to familiarise themselves with the forthcoming changes will be arise from the new FRS102. Updated FRS 102 was published on 27 March 2024. The effective date is for accounting periods beginning on or after 1 January 2026, with early adoption permitted. Some of the key highlights for charities include:

Leases (new section 20) and income recognition (new section 23)

As anticipated, the distinction between operating and finance leases has been removed and all leases will need to be recognised on the balance sheet as right-to-use assets. However, there is an exemption for short-term leases and for low- value assets to remain off the balance sheet. This does mean that some operating leases may be excluded from the definition and FRS102 gives laptops, photocopiers, printers and small office equipment as examples of what may be considered as low-value. Therefore it is important for all charities to consider and document the leases that they have to determine their forthcoming treatment especially where property is involved.

Section 23 is a new section – revenue from contracts with customers. It follows a comprehensive five-step model for revenue recognition for all contracts with customers, which looks at identifying the distinct goods or services promised to the customer and the amount of consideration to which the entity will be entitled in exchange. This is an area where prior year adjustments and restatements could arise as a result of the changes in income recognition.

Low value, high volume donated goods

Paragraph 34.70 has clarified that there are circumstances when it may be impracticable to estimate the value of a resource. This is allowing for donated goods to be recognised when sold or distributed without the need to include them as stock at the year end. This is a welcome addition and clarification to the wording to confirm that this option is available. There are also additional requirements to disclose where the charity benefits from such transactions which it only recognises when distributed or sold.

Legacies

The new paragraph in respect of legacy income recognition as follows is to be found at **PB34.70A**, which includes the following wording:

'Donations in the form of legacies are recognised when it is probable that the legacy will be received and its value can be measured reliably. Whether receipt of a legacy is probable and whether its value can be measured reliably may be affected by events such as valuations and disputes. An entity shall apply Section 32 Events after the End of the Reporting Period to determine whether the receipt of evidence about a legacy after the reporting date is an adjusting event after the end of the reporting period.'

The missing criteria in this wording is when entitlement occurs – so the current version references probate a likely indicator of entitlement being met. We will therefore need to wait for the Charities SORP to understand more detailed guidance on entitlement in respect of legacy recognition.

Other

There are other changes to heritage assets and the need to disclose unrecognised volunteer services for instance.

Conclusion

We would encourage you to have a discussion with your auditors on how the changes from FRS102 impact you and how to prepare for these changes without waiting for the draft Charities SORP to be issued – as they may affect your comparatives which commence on 1 January 2025.

Earlier Discussion

Next Charities SORP and FRS102

The Financial Reporting Council has produced a project update on the next FRS102. The timeline for its application has moved from the accounting period beginning on, or after, 1 January 2025 to 1 January 2026 at the earliest; this being a year later than FRED 82 originally proposed.

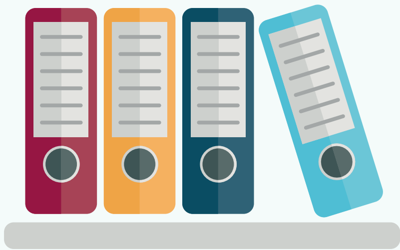
Charities SORP

The delay on the FRS102 comes as welcome news as the Charities SORP has not yet been issued for consultation; this we are expecting in 2024 with a short 12-week consultation period and plans to have a final version issued by the Autumn/Winter 2024. This means, however, that there will be little time for the charity sector to consider and debate the next SORP if only a 12-week consultation period takes place.

We ask all charities to be prepared for the SORP review in 2024 so that you can review the commentaries that will be produced on the changes planned. This includes our own commentary and events, to please issue feedback to the SORP making body. It is evident from the FRS102 process that the final version will be updated by the FRC with the comments they have received.

The FRC response to FRED 82 says "We are preparing final amendments for issue, taking into account the responses received. The final amendments are likely to differ in a number of respects from the FRED 82 proposals; the basis for conclusions will explain our key judgements and decisions."

By providing feedback on the proposed changes by the Charities SORP, we can ensure the changes remain relevant and effective.



Next FRS102

From the project update from the FRC on the next version of FRS102, it is clear that the proposed alignment with international standards on the five-step model for contract income recognition and for all leases, including operating leases being recognised on the balance sheet remains.

However, there are indications that the FRC are considering exemptions on the size criteria to which the requirements will apply; instead making the requirements more proportional, as well as looking to clarify recognition exemptions on low value leases.

The final version is due to be issued in the first half of 2024.

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What can businesses learn from the **British Library cyber attack?**

Those unaware of modern cyber attacks may believe that having a strong IT team with appropriate firewalls and monitoring facilities is sufficient to eliminate the threat of attacks. This lack of knowledge can make them prime targets for scammers. Adequate training and a culture of awareness within your working environment are essential for stronger prevention.

From a cyber perspective, a business is only as strong as its weakest link. Therefore, consistent awareness among all staff is imperative in the fight against cyber crime.

But is awareness sufficient? How does a business ensure all its employees are giving appropriate consideration to cyber risks?

This article will explore the British Library (BL) cyber attack in October 2023. The BL published a comprehensive report within six months of the attack, ensuring transparency and accountability. This report has been widely publicised and is prompting other organisations to review their own cyber policies and practices.

What happened in the BL cyber attack?

The BL incident involved an advanced ransomware attack that compromised their systems and data through a single server entry point. The hackers encrypted or destroyed a large portion of BL data and then removed it from its servers, ultimately selling it on the dark web after BL refused to pay the ransom of 20 bitcoins (~£596,000). The stolen data included sensitive material requiring direct contact with affected individuals and 600GB of data was released onto the dark web for anyone to access.

In addition to losing data, the encryption of the servers has made recovery a significant challenge, with restoration efforts still ongoing after six months. The library's operations have been severely impacted, as electronic cataloguing and search functions are offline, hindering visitors' ability to access information.

Furthermore, the BL cannot restore its systems to pre-attack conditions due to unsupported software or incompatibility with the new security infrastructure. The attack has had significant financial consequences also, with an estimated £6–7 million needed for recovery. Devastatingly, BL has assessed that an investment of only £50,000 could have prevented this attack.

What can I do to prevent cyber attacks?

As part of its report, BL released a list of important lessons learned. We feel it is important to share these with you for consideration in your own business:

Our recent Business Challenges article may also provide further advice from our Price Bailey experts.

- Enhance network monitoring capabilities
- Retain on-call external security expertise
- Fully implement multi-factor authentication
- Enhance intrusion response processes
- Implement network segmentation
- Practice comprehensive business continuity plans
- Maintain a holistic overview of cyber risk
- Manage system lifecycles to eliminate legacy technology
- Prioritise remediation of issues arising from legacy technology
- Prioritise recovery alongside security
- Encourage cyber risk awareness and expertise at senior level
- Regularly train all staff in identifying evolving risks
- Proactively manage staff and user wellbeing
- Review acceptable personal use of IT
- Collaborate with sector peers
- Regularly implement government standards, review and audit policies and processes

"In the modern era, cyber threats have become increasingly hazardous, but many of us remain unaware of how dangerous hackers could be to a business. Very often, someone only gains an understanding of the true impact of a cyber threat when they have experienced a disaster first hand; but this does not have to be the case.

If users at all levels become familiar with what threats look like, how to deal with them, and what the consequences could be, businesses will naturally become much more secure and cyber threats organically can reduce in size and frequency.

I think if everyone were to read 5 minutes on what happened at the British Library, at the Harris Academy Federation, or the various NHS cyber incidents that have happened throughout the years, then the business world would be a safer and more secure place."

James Hart,
Corporate Manager

The information shared by the British Library is a useful reminder that even well-established institutions are vulnerable to sophisticated cyber threats. The incident highlights the importance of not only having technical defences but also fostering a proactive, security-conscious culture across all levels of a business. Cybersecurity is not just the responsibility of the IT team it is a shared duty that requires vigilance from every employee. Investing in training, technology, and ongoing policy reviews is essential for staying ahead in the ever-evolving battle against cyber crime.

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Charities reserves and **strategic planning**

Charity reserves

For many charities, reserves are vital in supporting a charities ability to operate. Reserves are the funds that your charity has which can be spent freely on any of its charitable purposes. The Charity Commission for England and Wales has issued updated guidance regarding reserves, the importance of having a reserves policy and how to develop one. It can however be challenging to understand as an individual charity how you establish what is 'right' for your individual needs and how best to undertake financial management.

Having worked with many organisations over the years with little reserves, whom have been in financially challenging positions for many years as they can only generate enough income to keep their services going and are not able to put much aside, the key to their ability to continue was being able to keep a very close eye on expenditure, future income sources, cash flow, budgets, and resources. It is not a nice position to be in where you must count every penny, but it does show that organisations can survive on little reserves and still deliver fantastic charitable objectives.

Many funders (government, local authority, trusts/foundations, and corporates alike) often offer only restricted funding and very little contribution towards overheads which perpetuates this position. So, reserves are not necessarily the focus of attention but your ability as an organisation to survive and keep going with the correct financial plan. Having a buffer is nice but can often result in funds that are overlooked and not utilised. Rather, this article aims to guide you through the key considerations for charities when considering their reserves. We advise on why reserves can be so crucial in managing risk and sustainably, and managing investment.

One of the aims of any Trustee is for them to have been seen to look after an organisation during their tenure and to hand over a healthy and thriving organisation to the new Trustees when they retire from their role. So having more reserves then when your tenure started as a Trustee can be seen as a desired outcome. So, reserves can quite often be seen as monies to be held for a rainy day, a buffer and not to be spent – decreases in reserves can be seen as a negative aspect of their tenure as Trustees and the instead the desire is that they will grow.

Below we detail three important considerations when thinking about your charities reserves and strategic plan.

Managing the future: Strategic planning

Every charity needs to think about its future and prepare for it. This involves the creation of a strategic plan which is linked to the income of the organisation along with its resources and reserves which feed into a budget for its delivery. Ideally, the budget is arranged over a period of more than one year enabling it to support the delivery of the strategic plan. This plan will involve consideration and understanding of the income generation of the organisation and its associated risk.

The level of reserves is often not discussed or considered by the Board of Trustees in their strategic plans – the focus can often be more on the budgeted income, future income streams, surplus or deficit for the year. Reserves are usually considered once a year when the reserves policy is being looked at in the annual accounts and justified at that time without any flow through to the strategy and future plans.

Every charity needs to think about its future and prepare for it. A good strategic plan will consider various scenarios and timelines, for example looking at plans for building for the future, investment in resources and assets, as well as perhaps maintaining the current position. So there will be an element that may relate to the need for investment. Such investment could be recruiting fundraisers who will need funding until they are up to speed to cover their own costs or investment in service lines, new buildings or equipment. This investment could well come from the charity's reserves if the reserves are understood, and if there are amounts available for spending. For instance the charity strategy could have an expansion plan that needs seed funding from its reserves to be able to grow or become more efficient/effective, and to generate future sustainable income as a result.

The board needs to take active responsibility for managing the finances of the charity that requires reacting to, and dealing with, the actual results in the management accounts and how this affects the future strategy and plans of that organisation. If income plans are not being achieved, the charity needs to consider how it will deal with this situation, whether this includes using reserves, recruiting additional resources to generate income, seeking new income sources, considering mergers and collaborations, or cutting costs.

One of the key aspects of managing the risks is building resilience in the organisation by not being overly dependent on one type of income and building an earnt income into the structure; usually from trading, or better still charitable income. Such resilience should look to cover risk appropriately, for instance in the cost of living crisis charity shops tend to perform better as the public turn to them to save costs and in turn donations/fundraising tend to fall away. So these income sources can complement each other from a risk perspective as when one falls, the other is expected to increase.

To make any informed decisions about reserve levels, the strategic plan needs to consider how the charity is financed. Are funds raised by the charity in advance before being spent – from funders, service contracts or fees? In which case the view may be that the charity operates in a lower financial risk model and the level of reserves needed may be more modest. Or is income received in areas after delivery of the activity with clawbacks or performance criteria dictating the final amounts that may be received? In this case, the working capital requirements may be higher if borrowings or social investments are not available to bridge the gap.

Managing risk

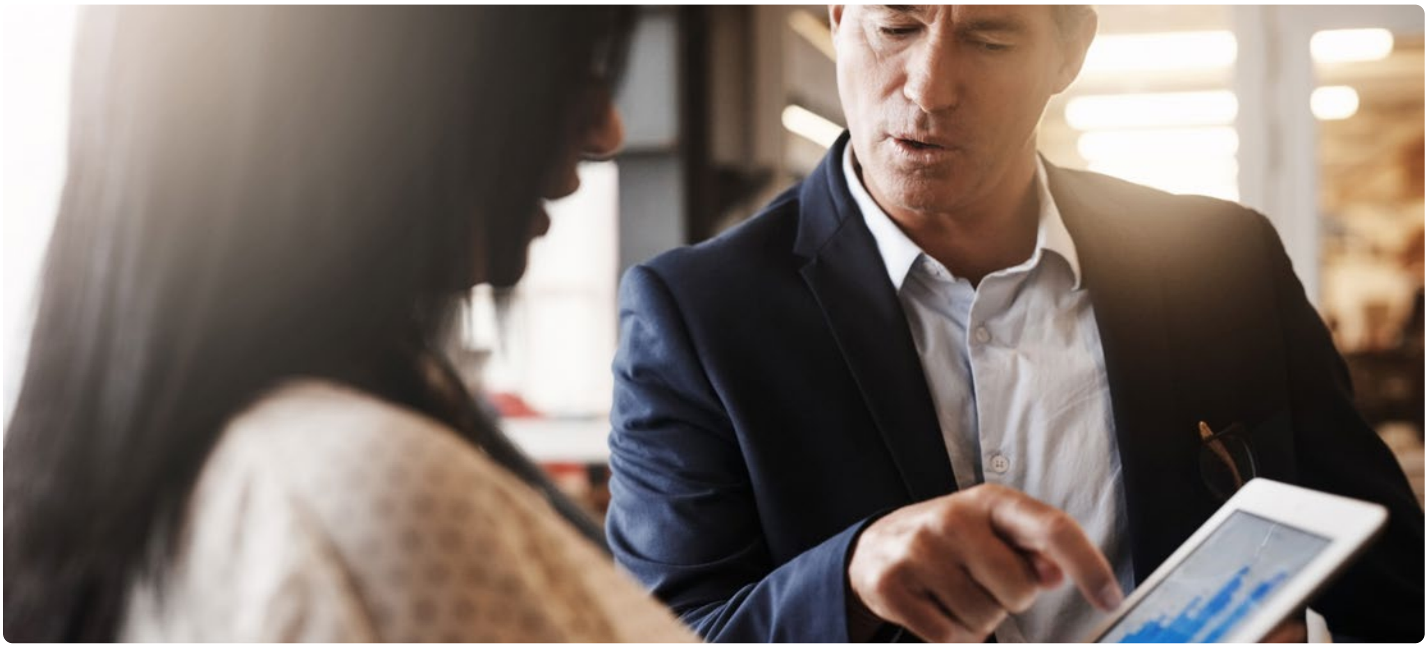
Reserves are about the active management of an organisation to help it survive a period of difficulty and manage its way back into sustainability. However, reserves should not be looked at as a desire to hoard funds to give the charity peace of mind. Reserves need to work as hard as income generation, achieving the budgets and delivering on the objectives of the charity.

An easy way to think about reserves is to build up a picture of why the organisation needs to hold funds. A simple example is perhaps fixed assets – these could be designated as a separate fund or form part of the free reserves – but are illiquid funds which represent the net book value of the fixed assets owned by the charity and used to deliver charitable services and activities.

Another reserve could be an income risk reserve. For example, legacies are unpredictable and income levels could fluctuate year-on-year. Past performance has no meaning for future receipts, so in order to help manage these peaks and troughs, a charity could use good years to put funds aside for leaner years to bring a more even and sustained level into the yearly budget managed through transfers from this reserve. The level of this reserve would need monitoring if it grows too big to release funds to free reserves or the amount being budgeted as income if the pot grows small. Each element of income could be thought through in a similar fashion to create an amount that forms a realistic income reserve. This reserve may sit within the free reserves, but could make up one element of this pot – another could be working capital.

The fact that reserves represent unspent income can often be overlooked. Most charities do not have the power to accumulate funds and should be applying their resources to charitable purposes, or be able to justify why they have not. Therefore, when charities hold reserves they are balancing the need to spend on their beneficiaries (or charitable purpose) in the current period versus spending for the future as well as against the need to hold funds to manage risk. By not spending reserves the charity is depriving itself from being able to apply money to deliver its charitable objectives – which is one of the duties of trustees.

Reserves do have an important part to play in any organisation whether it's a commercial company or a charity to cope with liquidity and working capital needs, funds for future development and investment, risk assessments and future planning. However, they do need to be considered and assessed. Charities that have undertaken their strategic planning to encompass budgets, future plans, liquidity, working capital and reserves, have been able to determine how much funds are required to be retained in reserves and many have been able to free up reserves to use in the charity.



Income risk

Every charity will have its own unique income risk profile. Some income is more inherently risky such as legacy income and its budgeting and predictability. Other income such as residential care home fees may be less so but voids can be unpredictable, as will cash collection perhaps. Income risk is simply about asking yourself lots of questions to understand the risk around each income source, and then documenting this in a meaningful fashion.

For example, let's consider donation income from trusts and foundations. How much has been agreed and signed for in grant agreements? How much is promised or is work in progress to finalise the agreement? And how much is purely speculative? Similarly, each other income line or category will have income risk within it to a greater or lesser degree. The budget for the year will be a mix of all these assumptions leading to a suggested prediction of income from trusts and foundations.

It is important for the board to be aware of the difference in guaranteed income against the projected pipeline and against estimated income used for budgeting purposes. It is important to understand the income risk that the budget has within it and to monitor that risk over the year. A budget provides an annual snapshot, and this information should also be clear, with speculation and assumptions used understood so that this estimated income can be managed and monitored by the Board at the year evolves. Therefore as income is realised during the year both under and over estimated income levels can be considered and appropriate action taken to mitigate against these changes in income levels. Unless income risk is managed it can result in unplanned and unauthorised usage of unrestricted reserves. So we have seen where an organisation spent virtually all of its reserves in one year and nearly went bust because the management account forecasts just assumed income would be received at 1/12th of the total projected income rather than pick up on the underperformance of the service team and that income was not being earnt in line with the plan. By the time the Board identified the issue and cut back on expenditure and staffing levels the funds had been spent.

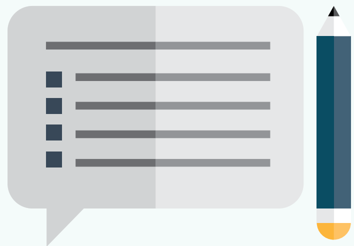
Furthermore, many organisations may look at longer-term income forecasts and budgets which help plan for beyond the coming year. Where income streams are not guaranteed it is crucial to have a longer term time horizon to be able to manage the income risk as otherwise if the funds fall away after the year end the organisation is not looking at and managing how it will deal with this issue and change the outcome.

Each set of management accounts needs to continue to inform the board with an update against each income stream and their risk of achievement as the year progresses. This helps the board understand the whole picture so they can make informed decisions around whether the budget can be delivered or if they need to take precautions such as reducing costs. A good reserves policy will also help the organisation in monitoring and managing its income risk in both the current year and future years, informing the strategy and decision making.

Reserves need to be managed

The key message is that reserve levels need to be as actively managed as budgets, income and cashflows in the strategic plan so that informed decisions can be made as to when to retain amounts and when to spend. The charity could be using their reserves to fund new development and investment in services for beneficiaries or for income generation plans – do you know if your reserves are all required to be retained or do you have any spare? When you look at your reserves policy do you understand why the policy says what it does? Why, for example, is three months operating costs required not six or two or even none; and is this actually the right reason in the first place? How does this tie into financial sustainability and resilience and income risk?

Therefore, it is important that the charity takes stock occasionally and produces a long-term plan that reviews the organisation, what it does, how it will be funded, its financial strategy and business model – normally covering no more than five years. These will determine the appropriate level of reserves needed to allow that organisation to deliver the strategic plan. Furthermore, these plans take a lot of effort by the senior management team and the trustees to produce, so it is important that this plan does not just get put on the shelf but is actively reviewed each year to monitor progress, review and realign the plan as necessary.



Key Takeaways

It is crucially important to ensure that reserves are part of the budget and strategic planning process, and not just a number on a balance sheet that needs to be justified once a year in the statutory accounts. Make sure that the amount of reserves your charity has are derived from an informed viewpoint and there is a conscious decision on the amount needed and why. Consider current and the future needs of the charity. Make the reserves work for your charity just as hard as you do.

Our team of experts can assist in advising on how best to manage your charity reserves and assist with your individual charity circumstances. Please use the form below to contact one of our experts who can advise accordingly.

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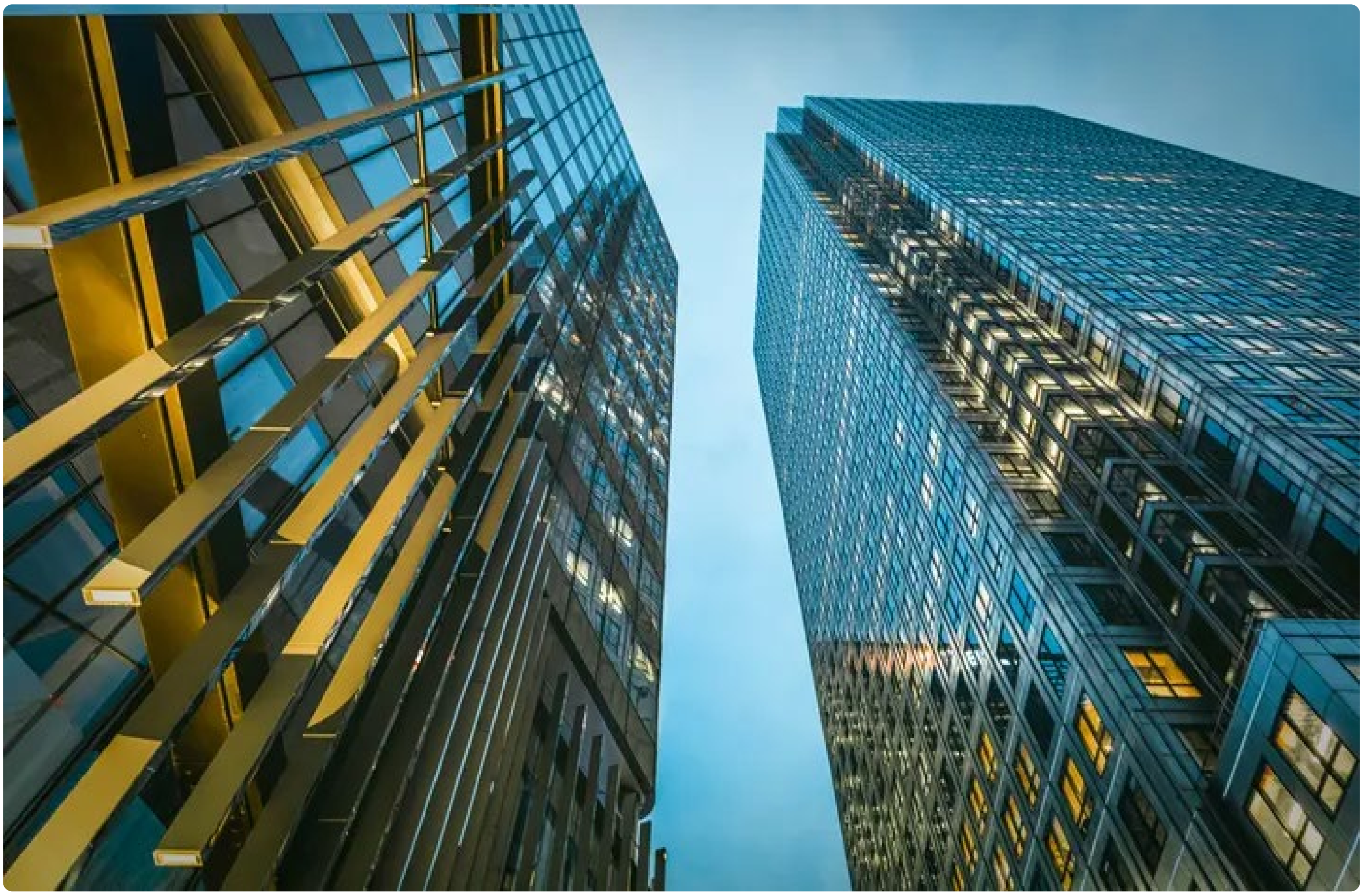
Changes to UK company **size thresholds**



In December 2024 '[The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024]' were laid before Parliament and will come into force on 6 April 2025. These regulations change the UK company size thresholds.

Transitional provision removing two-year consecutive rule

A transitional provision in the legislation means that if the size criteria apply in the current financial year then they are also deemed to have applied in the previous financial year. As a result companies and LLPs are able to apply the benefits of the threshold size change in their first accounting period beginning on or after 6 April 2025 if they meet the two year test by applying the new limits to earlier years (even if they didn't qualify as small for those years using the old limits).

New thresholds

If a company or LLP meets any two out of the three criteria in a financial year they can apply the resultant reduction in reporting requirements.

Remember that there are certain types of companies not allowed to take advantage of this regime as set out in s.384 (companies excluded from the small companies regime), s.384B and s.467 (companies excluded from being treated as medium-sized) of the Companies Act 2006.

Companies and LLPs moving into the small entities regime will have simpler accounting requirements, will no longer need to produce a Strategic report and will be exempt from audit (subject to their governing document and any group membership implications). This audit exemption will be of huge benefit to small non-charitable companies and small LLPs.

Those moving from large to medium sized will have a simpler Strategic report removing the requirement to include a statement on how directors have had regard to stakeholder and other interests listed in section 172, CA 2006 (Section 172(1) statement).

The table below sets out the new size thresholds that will be met for a financial year if any two of the three criteria are met:

For companies and LLPs	Micro	Small	Medium	Large
Two of three:				
Annual turnover £	≤1M	≤15M	≤54M	>54M
Balance sheet total £	≤500K	≤7.5M	≤27M	>27M
Average number of employees	≤10	≤50	≤250	>250

For groups ignoring elimination of intra group transactions	Small	Medium	Large
Two of three:			
Annual turnover £	≤18M	≤64M	>64M
Balance sheet total £	≤9M	≤32M	>32M
Average number of employees	≤50	≤250	>250

The balance sheet total refers to gross assets and the number of employees criteria has remained unchanged in the new limits.

As a reminder the existing thresholds for companies and LLPs are:

	Micro	Small	Medium	Large
Two of three:				
Annual turnover £	≤632K	≤10.2M	≤36M	>36M
Balance sheet total £	≤316K	≤5.1M	≤18M	>18M
Average number of employees	≤10	≤50	≤250	>250

Changes to Directors reports:

In addition, large and medium-sized entities can exclude the following from their Directors' Report:

- financial instruments
- important events that have occurred since the end of the financial year
- likely future developments
- research and development (R&D)
- branches outside the UK
- the employment of disabled people
- engagement with employees (as covered under s172 statement requirements)
- engagement with customers and suppliers (as covered under s172 statement requirements)

However, some of these may still be needed in other parts of the accounts and reports, e.g. the strategic report.

These changes will be welcomed, as the Economic Crime and Corporate Transparency Act 2023 introduced a new corporate offence for failing to prevent fraud; however, this currently applies only to large entities. Please speak to us for more detail on the precise changes that will affect your entity as a result.

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Cybercrime and fraud in the **charity sector**

During the last year the Charity Commission have revealed that they have had over 600 fraud cases and 99 cybercrime cases reported to them in 2024. The most common cybercrime is phishing attempts. The charity sector is seen as a soft target as it is expected that their internal control environment may not be as robust as large commercial organisations and so is more susceptible to attack.

Therefore, during Charity Fraud Awareness week, on 27 November 2024 the Charity Commission produced various updated guidance on fraud and cybercrime. In particular, our article on the British Library cyber attack demonstrates that prevention is better and cheaper than the cure and it is important for all charities to consider and assess their risk of fraud and cybercrime. There are lots of free help and resources available for charities too from online training, toolkits to risk assessments and this article highlights what resources are available to you.

Internal controls CC8 update

The Charity Commission updated their guidance on Internal controls CC8 update for protecting your charity from fraud and loss. This now has a completely new section – Protect your charity from fraud loss. The fraud guidance covers advice as to what to do when a fraud or attempted fraud happens and to try and stop it in the first place through a review of areas of risk and having strong internal controls.

Actions you should consider now are to ensure you have the right culture to encourage people to voice their concerns and how to do so. Therefore, the guidance explains that charities should:

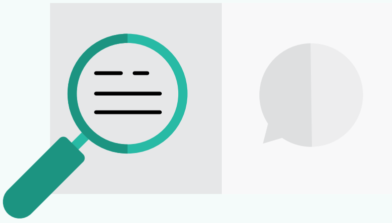
- adopt and promote an **anti-fraud policy**
- **review your fraud risks** every year ad reconsider these if there is a fraud or attempted fraud
- discuss **fraud risks** with organisations that you work with or fund
- **perform checks** on your financial controls to ensure they are being followed
- ensure your volunteers, employees and trustees **understand your fraud prevention measures** through regular updates and training
- **understand cyber fraud and cybercrime risks**
- undertake **pre-employment checks** on all staff
- have a **fraud response plan** so that everyone knows what to do if they discover fraud
- **report risks** and how they are managed in your Trustees' Annual Report.

There are more resources, guidance and training available at Preventing Charity fraud website to help you assess your risks and create your policies and plans.

Reporting a fraud

If your charity is unfortunate enough to suffer a fraud, then it is important to understand who you need to report to, and your fraud response plan should cover these requirements. You need to consider whether to report your fraud to:

- Action Fraud. Action Fraud is the UK's national reporting centre for fraud and cybercrime where you should report fraud if you have been scammed, defrauded or experienced cybercrime. This website also has free resources, toolkits and training available for organisations to use and latest news on most recent fraud and scams.
- Police
- HMRC if relevant
- Charity Commission using the serious incident reporting framework
- ICO if it relates to GDPR or personal data.



Cybercrime

The Charity Commission also issued new guidance on Protecting your charity from cybercrime.

One of the most common questions we are asked is are there free resources available to charities to help them in assessing and understanding their risk of cybercrime. There are basic steps that you can take to protect your charity:

- Consider insurance. Your insurance company should be able to provide you with a quote for various levels of fraud and cybercrime insurance. In order to provide you with a quote they will ask you lots of questions which will help inform them on the risks involved. This exercise itself may be useful in thinking about your fraud and cybercrime risks.
- Police resources which are regional and the Eastern Cyber resilience centre offers a free resource 'Little Steps' that will allow you to be able to apply for Cyber Essentials accreditation at the end of the programme. This is a great way to help you also reduce your insurance premiums by becoming accredited.
- National Cyber Security Centre (NCSC) website which has lots of free resources, training and tolls available for small charities.

National Cyber Security Centre (NCSC)

This website is the go to place to start your cybercrime protection journey.

The NCSC has a Small Charity Guide that covers the basic information and tools you need to protect your charity. The resources are free or low cost and designed to be easy to use so that you can put them in place quickly. The guide can help you to:

- protect your digital devices from common cyber-attacks, such as phishing and malware
- back up your charity's data in case it is lost or stolen

There is also a guide about how to defend against malware and ransomware.

The NCSC has free online cyber security training for staff available to all – 'Staying Safe Online: Top Tips for Staff' and takes less than half an hour to complete. There are also a number of webinars available on the Charity Digital website:

- Keeping your charity cyber secure
- NCSC: 5 steps every charity should take to improve their cyber security
- Cyber Security: Setting up your charity's risk management regime
- Prevention is better than the cure: Is your charity doing enough to protect from cyber-attacks?
- How to get charity leaders to take cyber security seriously

The NCSC has a Cyber Security Toolkit for boards which is designed to 'help boards to ensure that cyber resilience and risk management are embedded throughout an organisation, including its people, systems, processes and technologies'. Smaller organisations may wish to refer to the Small Business Guide instead. For medium and large charities, then these charities may want to start with the NCSC's 10 Steps to Cyber Security that breaks cyber security down into 10 manageable tasks to make it easier to put the measures in place. The NCSC also has cyber-attack exercises that recreate common cyber-attacks so you can practice your response.

Finally, the NCSC has a list of certified training courses for medium and large charities.

What can I do now?

Cybercrime is not going to go away and the risk to organisations only increases as criminals become more sophisticated and convincing. Charities need to protect themselves and the above article points at lots of free resources available to help you. So, there is no excuse to start the journey – do not let yourselves become one of those who fell foul of a fraud or cybercrime for the lack of basic awareness, preparation and training.

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CC12 updated guidance: Charity financial management

Economic uncertainty remains an issue in the charity sector in 2025. October 2024's Autumn Budget is likely to impact the public and continue to make finances tight for many; it will certainly make the fundraising environment challenging for the foreseeable future. It's difficult to predict how future budgets and policies will affect the charity sector, however managing cash balances is of critical importance to charities of all sizes.

The financial failure of Kids Company (which had total income streams of approximately £23m and slightly fewer than 500 employees at its peak) serves as a useful reminder that even growing, larger charities need to regularly monitor cash flow.

Updated guidance

The Charity Commission published updated guidance 'CC12 – Improving your charity's finances' in September 2024. The revisions help trustees understand how they can improve the financial position of their charity, and the guidance is now split into three sections:

1. Managing your charity's finances

This section highlights the importance of trustee involvement in the financial management process, as trustees are ultimately responsible for financial management and are required to oversee charities' finances even if the day-to-day management is delegated to an executive team. Trustees require timely, quality financial information to enable informed decisions to be made.

Regular monitoring is important and will increase the chances of detecting any issues early, enabling actions to be implemented before a situation potentially worsens. The Charity Commission has a 15-question guide to help trustees review financial performance and make effective decisions. Do you as trustees have the information you need on finances? Is it timely, accurate and robust with a summary which explains any variances in sufficient detail to understand if they are permanent, and potential effects on the forecast? Are assumptions in the forecast understood, particularly on income which is being estimated or predicted and currently unsecured?

2. Check if your charity is in financial difficulties

The second section delves further into financial management, listing important considerations for assessing potential financial issues, i.e. regularly monitoring the accuracy of:

- Current cash balances
- Cash flow forecasts
- Current assets/liability totals

The guidance also includes a checklist to help trustees determine if there are risks of insolvency. If insolvency appears to be a likely eventuality, charities may choose to continue at a reduced scale, merge with another charity, or close. Trustees will need to follow the required legal processes if a decision is made to close a charity. Think about your cash and can you pay your creditors as they fall due? Can you pay your staff? Do you know what cash is coming and when? Does the forecast show really low levels of cash at any point, and if so, how will this be rectified? Are you monitoring restricted funds and their balances to ensure they are not funding the general activity?

3. Actions you can take to improve your charity's finances

The final section summarises tips for charities which are struggling but considered solvent, and CC12 provides a few different courses of action trustees can implement:

- **Minimising costs** – e.g. ceasing any non-essential outgoings, reducing administrative costs.
- **Looking for additional sources of income** – e.g. applying for grants, liaising with charity's supporters.
- **Reviewing your charity's funds and assets** – e.g. using your charity's reserves, selling some of the charity's assets.

These pointers from CC12 are fundamental and cover areas that all trustees should be aware of in order to ensure that the tough actions are taken early enough. Burying your head in the sand and hoping your finances will improve on their own rather than managing the situation is often where things go wrong. Minimising costs can be put off and may lead to more drastic action being required at a later stage. Running a charity is not an easy process as your income is not guaranteed. The challenge is often a tricky balancing act of understanding when that income is not going to arrive and action must be taken, as opposed to when it is likely to come in and operations can continue as planned. Often, we have seen a reticence to accept the clear warning signs and apply the brakes early enough. Ultimately that could save a charity and give them time to manage their finances rather than sit back and just wait for the cash to run out.

Further considerations

Implementing effective preventative measures at board level is an example of effective governance and should reduce the likelihood of charities falling into future financial difficulties. Such policies may include:

- Ensuring financial management is considered in all trustee meetings.
- Ensuring trustees have access to timely, accurate financial information ahead of meetings.
- Ensuring management are regularly reporting on actual results compared to forecasts, providing particular focus on adverse variances incurred.
- Regularly reviewing and updating the charity's risk register where required, whilst considering Charity Commission guidance on risk management (CC26).
- Ensuring reserves policies are regularly reviewed and continuing to be fit for purpose. This includes considering unrestricted free reserves levels and comparing to actuals. 'CC19 Charity reserves: building resilience' provides further details on the importance of governing charity reserves.

Final thoughts

Trustees are encouraged to digest the updated CC12 guidance on improving charity finances. Effective financial management is currently of significant importance, given the pressures the charity sector is experiencing, with rising costs, increased demand for services, decreased donations and increased competition for funding.

We always recommend that you seek advice from a suitably qualified adviser before taking any action. The information in this article only serves as a guide and no responsibility for loss occasioned by any person acting or refraining from action as a result of this material can be accepted by the authors or the firm.

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Price Bailey CHARTERED ACCOUNTANTS

Our Not For Profit team

This newsletter is from our Charity and Not for Profit team at Price Bailey, if you have any questions about any of the points raised in this newsletter please contact us here.

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