

NEWSLETTER WINTER 2014

HMRC NEWS

CHANGES TO THE NATIONAL MINIMUM WAGE

The national minimum wage is the minimum pay per hour almost all employees are entitled to by law.

From 1 October 2014, these minimum wage rates are increasing.

Age group	Current rate	Rate from 1 Oct 2014
21 and over	£6.31	£6.50
18 to 20	£5.03	£5.13
16 and 17	£3.72	£3.79
Apprentices	£2.65	£2.73*

*This rate is for apprentices aged 16 to 18 and those aged 19 or over who are in their first year. All other apprentices are entitled to the National Minimum Wage for their age.

HMRC FINES IN PLACE FROM 6th OCTOBER 2014

Now that Real Time Information (RTI) has become 'business as usual' for almost every employer, HMRC are to start issuing fines for late submissions. This is effective from 6 October 2014, only for businesses with 50 or more employees.

A late submission is when you submit your full payment submission (FPS) after the employees' actual pay date. To ensure you send the FPS on time, you must submit it on or before the process date.

If you still need to align your pay and process dates, to avoid any fines going forward you must do this **now**.

THE IMPORTANCE OF BUDGETING

Budgeting can be a somewhat off-putting word which is used to describe something we all do in our private lives namely:

Financial Planning

For example, we all plan shopping trips, outings and holidays etc., and even though we may not write down these plans, we are in fact budgeting.

Today, funders are increasingly demanding that groups keep **rigorous control** over their finances, and particularly that they prepare a budget, allowing actual performance to be measured against this, and so the performance of the group can be judged.

The budget, or financial plan, is only part (the last part) of the planning exercise. Management Committees must **first** consider the range of services that is expected by members, funders, etc., and devise a plan to provide these services. Having decided on the service plan, the budget is simply the income and costs associated with the plan.

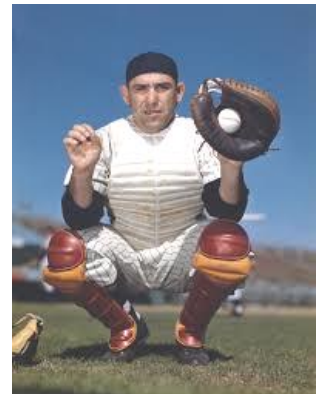
Every year around this time there are some groups who find that their finances are out of control, and their expenditure is far greater than their income.



"If you fail to plan, you are planning to fail!"
Benjamin Franklin

"You got to be careful if you don't know where you're going, because you might not get there."

Yogi Berra



So what is a budget?

A budget is:

- a financial evaluation of an organisation's planned services for the coming year
- a forecast of income and expenditure which can be used to monitor financial performance in the year ahead
- a financial plan which may be required by funders

Why budget?

A budget is prepared to:

- ensure that the proposed plan of services to members can be achieved within the finances available
- ensure that best use is made of finances
- establish a method of checking and monitoring financial performance
- report planned and actual performance to the Management Committee

How is the budget prepared?

The first question to think about is -

'Has the charity any plans to alter its activities and apply for new grants?'

You should prepare the budget in the following four stages, always making sure that it is approved by a full Management Committee at least one month before the commencement of the financial year.

Expenses

The starting point for a budget is the Expense Headings which will usually be fairly obvious:
For example:

Wages	Who is employed and at what rate?
Rent, rates	How much and when do we pay?
Heat and light	How much will it cost to heat the premises?
Maintenance	Are we responsible for the maintenance of the building and are any major repairs necessary?
Telephone, etc.	How much and when do we pay?
Expenses	What is the likely cost of Management Committee members' and employees' expenses?
Sundries	Make a reasonable judgement about these small amounts, e.g. Petty Cash items.

You now have a list and a forecast value of expenses which you should compare with the previous year's Actuals to ensure that they are reasonable, and that you have not left anything out.

Income

You must now construct the Income side of the budget.

This will comprise Guaranteed Income, i.e. income which has already been agreed by a funder or funders, and non-guaranteed income, i.e. income which you plan to raise.

Again, when you have compiled these figures, you should compare them with the previous year's Actuals to test if they are reasonable.

Comparing Income and Expenditure

Total income and expenditure should now be compared with each other to establish if there is a forecast surplus or deficit of income over expenditure.

It is sound Financial Planning to budget for a surplus of about 5%, i.e. to ensure that Income exceeds Expenditure by about 5%. This should ensure that any unforeseen expenditure can be met.

If there is an adequate surplus, then you may proceed to phase the figures, i.e. to analyse the income and expenditure in the month they arise.

If, however, there is a Deficit it will be necessary either to:

- seek additional funding
- organise more fund raising
- reduce cost by deferring proposed expenditure

However, **BEWARE!** It is not good practice to defer necessary expenditure, e.g. Maintenance: *'buildings don't get better'*.

Phasing the budget

Phasing is a most important aspect of constructing a budget. It involves analysing both income and expenditure monthly. This is important because, whilst the total budget for the year may show a surplus, it is quite possible to have sizeable deficits in individual months.

If there is a phasing problem, (*ie if there is deficit in particular months*) it may be possible to:

- arrange for funders to pay half-yearly in advance instead of quarterly in advance **or**
- defer expenditure to later in the year

In any event, this problem must be resolved **before** the budget is submitted for approval. In due course, when a budget has been constructed showing an adequate surplus and a satisfactory phasing, you should submit the budget to the Management Committee for final approval.

Sensitivity Analysis

The process of changing a key financial assumption and measuring the effect on the budget forecast is known as **Sensitivity Analysis**.

- * Your financial plans should reflect that the environment is uncertain. By reviewing the assumptions, you are taking into account the possibility, and effect, of such changes on finances.
- * Sensitivity Analysis will help test the assumptions you have made.
- * Sensitivity Analysis will help identify those events likely to have the biggest impact on the organisation and how it would react to them.

Sensitivity Analysis is an excellent tool for business management.

Pensions Automatic Enrolment

Does Automatic Enrolment Apply to You?

If you are an employer with staff working for you in the UK, then **yes** automatic enrolment does apply to you and there are things you will need to do.

If you are self-employed or the sole director of your own company, you won't be automatically enrolled into a workplace pension.

Automatic enrolment means that, rather than having to actively choose to join a pension scheme, staff are put into one by their employer as a matter of course. If they don't want to be in the pension scheme, they must actively choose to opt out. It's to encourage people to stay in pension saving.

We can provide training - contact us for details

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