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Welcome to the seventeenth issue of the newsletter for CIPFA members and others working in or with the charity sector. This newsletter is brought to you by the CIPFA Charities Panel.

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Charities and investment matters

David Elis-Williams takes a look at the guidance issued by the Charity Commission in October 2011.

The new CC14 guidance, ‘Charities and Investment matters’, issued by the Charity Commission in October 2011, should be of interest to many charities in England and Wales.

It’s a major rewrite of what was previously in three different documents: the old CC14 ‘Investment of Charitable Funds: Basic Principles’, a more detailed ‘Investment of Charitable Funds: Detailed Guidance’ and ‘Charities and Social Investment’. There is still a lot of content in the new guidance – and there needs to be, as this continues to be a complex area, and there are many angles to cover. Following the Commission’s usual style, we have a question-and-answer briefing, usually with a “short answer”, then “in more detail”. This allows for a quick scan for the relevant bits, then the option to drill down. And for those who need to drill down even further, there is a separate “Legal Underpinning” document, which keeps the most technical details out of the main guidance. Even so, the main guidance, in the PDF version, still runs to sixty pages.

There is no fundamental change to the law in this area since the old guidance was written, but given that a charity which follows guidance is unlikely ever to be found wanting, there is

much change that can be achieved through nuance and nudge. A new format and a new style leads to subtle changes of emphasis even when describing the same thing and this may encourage change. The Commission in this guidance may be leading change in the sector, although it is arguable that they are simply following what best-practice charities are already doing.

Programme Related Investment

The biggest change is to bring Programme Related Investment (PRI), more or less what was previously termed Social Investment, into the mainstream, and that's achieved quite simply by bringing it into this main guidance. PRI is when a charity undertakes an activity whose primary purpose is to further the charity's aims, with an incidental financial return. One example given is a charity working to relieve poverty making a loan to another charity that helps get the unemployed back to work: the activity helps to relieve poverty, and in addition the first charity expects to receive a return, in the form of repayment of the loan. It becomes clearer on reading the guidance that furthering the aims is the key to this: PRI must be justifiable, and justified, in those terms. Charities undertaking PRI to achieve their aims will be on sound footing because of this.

There is, at least at first sight, quite a firm line between financial investment and PRI, where the Legal Underpinning states PRIs "would not be investment in the legal sense". It follows that much of the statute and case law doesn't really apply to PRI, and leads to the slightly perverse guidance that the obligation to seek advice is actually less for PRI than for financial investment: perverse because anybody reading through all the PRI guidance will be sure that this remains a difficult area. It's also clear that the Commission are sceptical about a charity committing its permanent endowment to PRI, although they can't quite rule it out entirely.

Mixed Motive Investment

There is always the grey area, and it has been necessary to introduce the concept of mixed motive investment, justified neither as a financial investment, nor as PRI, but capable of being justified as a mix of both. The guidance can't go into much detail about this, only acknowledging that it is a developing area.

Interestingly for charity accountants, both the guidance and legal underpinning recognise that the Charity SORP has yet to catch up with the concept of mixed motive investment: it seems that a charity can do it, but can't yet account for doing it! Watch this space...

Ethical Investment

As an investment policy within either Financial Investment or PRI, the idea of ethical investment is also mainstreamed. Again, there is no real change in what the guidance says, just that it reads more like "Yes, but..." instead of "No, except...". What is permissible for such a policy is now summarised neatly in three reasons:

- A particular investment conflicts with the aims of the charity; or

- The charity might lose supporters or beneficiaries if it does not invest ethically; or
- There is no significant financial detriment.

Charities will find this easier to follow.

Asset Classes

The new guidance has moved with the times, to address a wider range of investment asset classes, giving a list of possible investments which includes derivatives and commodities. While this is qualified with statements about risk and diversification, and that these two classes in particular are identified as high risk and unlikely to be suitable, this is a shift from the previous guidance which expressly forbade charities from investing in commodities. Works of art were also previously forbidden as investments; they are not mentioned in the new guidance, from which it can perhaps be deduced that they are no longer proscribed, albeit that they would still be at the boundaries of acceptability.

Improvements on the Draft

This publication follows a consultation on a draft version of the guidance which had been issued in December 2010. Some respondents had been critical of its complexity, and it's clear that parts of the guidance have been extensively redrafted in the light of responses, with some welcome simplification. This has taken time, as what was originally intended to be issued in the Spring in fact took until the Autumn.

One issue identified by the CIPFA Charities Panel in its consultation response was the treatment of cash deposits. There are very many, usually small, charities whose only investments are cash deposits, and this is an area where the banking crisis has led to very real problems for a few charities. Charities which hold only cash deposits shouldn't jump to the conclusion that this guidance is not for them, and CIPFA identified this as a risk in the draft version, where the details were tucked away in an appendix. A welcome change in the final version is to include an expanded passage on cash deposits at Section I of the main guidance, clearly signposted from the top of the document.

Another development is in relation to stakeholder activism, the means by which charities, together with other stakeholders such as pension funds, are increasingly using their shareholder voting powers and engagement with companies' management to influence them, in pursuit of their charitable or ethical aims. This was alluded to in the draft, but in the final version there is a longer explanation which echoes some of CIPFA's comments on the draft.

Some Nit-picking

The earlier draft had included another category, called Mission Connected Investment, which had contributed to the complexity of that version. A welcome simplification in the final guidance is to drop that category, but it's annoying to see it included in the glossary (and paragraphs in the Legal Underpinning) when the term itself is no longer used in the

body of the guidance.

Charity accountants will also notice that 'SOFA' is correctly spelt out as Statement of Financial Activities in section J12, but then wrongly defined in the glossary, which is hardly necessary when the term is not used elsewhere.

And finally, it is inevitable with guidance such as this which aims to cover a wide range of situations, but it would assist users if they were given some benchmarks to help judge the meaning of words such as "smaller", "frequently" and "complex".

Community Accountancy National Network Conference - Birmingham

The **Community Accountancy National Network's annual conference** takes place in Birmingham from 31st Jan - 2nd Feb, 2012.

Now, more than ever, small and mid-sized community organisations need good support with finance as they attempt to navigate through the change and uncertainty all around us.

This is the event for anyone involved in the finance and accounting side of life in local community and voluntary organisations. Ideal for community accountants, finance staff within charities and local Councils for Voluntary Service, payroll providers, trustees and staff.

Details of the conference and the programme are available at www.communityaccounting.org or contact John O'Brien on 0115 947 0839 or through www.caplus.org.uk

Social enterprise – what is it and does it matter?

Social enterprise is an important element in proposals to reshape public service delivery. For example, government is supporting the right for NHS staff to provide services through staff-led social enterprises and the localism agenda supports diversification of public service delivery including social enterprise.

Defining social enterprise

Social enterprises:

- undertake trading activity,
- have social objectives and

- reinvest at least 50% of profits to further social objectives

So what types of organisation fit the above criteria? Well they include:

- Charities (those where earned income is 50% or more of total income)
- Community interest companies
- Mutuals including co-operatives

Social enterprises can be found in a wide range of sectors and activities including: finance, agriculture, schools, housing, community shops, sports supporters' trusts, retail and employee owned businesses, leisure trusts, social and health care, community facilities, arts facilities, and so on.

So what?

As Jonathan Bland (Managing director, Social Business International) writes in the forward of the CIPFA publication on social enterprise (*Social enterprise and public service delivery*, CIPFA, 2011):

'When establishing any new social enterprise, the adage 'form needs to follow function' always applies. There are a wide range of choices and options available that have a profound effect on the nature of the business as it develops.'

Those intending to manage a social enterprise or develop policies to support the sector, or offer advice and support, need to be clear about what social enterprise is, and how each distinctive type of social enterprise (from charity to co-operative) differs from each other. In each case, understanding the difference is critical to delivering effective services that build on the advantages offered by the various business models.

John Maddocks is Technical manager: Third Sector & Sustainability, at CIPFA. CIPFA's publication 'Social enterprise and public service delivery' can be found at the CIPFA online shop: <http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/product/PUBCH003H>

The new SORP – Progress so far

Nigel Davies, Technical Secretary to the charities SORP Committee writes about the plans for the next SORP

Since my last article in the Winter 2010/11 edition, there have been a number of developments in the plans to change UK Generally Accepted Accounting Practice (UK GAAP). SORP 2005 will remain in place until the ASB changes UK GAAP to bring it more into line with International Financial Reporting Standards (IFRS).

The latest developments are:

- The planned implementation date for changing UK GAAP is changed to financial years starting on or after 1 January 2015.
- Full EU adopted IFRS will not be a requirement for any entity that is not currently required to use it. Charities will therefore not be required to follow full IFRS (tier 1) and unless company and charity law changes tier 1 will not be an option for a charity's statutory accounts.
- The charities SORP will be based on the Financial Reporting Standard for Medium-sized Entities (FRSME) and the Financial Reporting Standard for Smaller Entities (FRSSE).
- The FRSME is to incorporate the accounting treatments set out in the draft Financial Reporting Standard for Public Benefit Entities (FRSPBE).
- A further consultation will be held by the ASB on the FRSME in early 2012. This is important as this standard will affect the future of charity accounting.
- The drafting of the next SORP is reliant on publication of the final FRSME and so the SORP Committee will not complete the drafting of the SORP until the end of 2012. This means that the public consultation on the next SORP is likely to take place in 2013.
- Since the next SORP is based on the FRSME (tier 2) and not EU adopted IFRS (tier 1) those public bodies required to consolidate their charities will be required to make adjustments on consolidation. Group accounting policies cannot be used in preparing the charity's accounts.
- The next SORP will cater for those charities sticking with the existing Financial Reporting Standard for Smaller Entities (FRSSE). The ASB plans to retain the existing FRSSE for an unspecified period as tier 3.

The next SORP will be in the form of modules where the preparer selects whether to prepare the accounts under the FRSME or FRSSE and then chooses those modules that apply to their circumstances. To view a list of the planned modules and for further news on progress view the December 2011 SORP Committee papers on our website:

http://www.charitycommission.gov.uk/Charity_requirements_guidance/Accounting_and_reporting/Preparing_charity_accounts/compapers.aspx

CIPFA Certificate in Charity Finance and Accountancy

The Certificate in Charity Finance and Accountancy has been designed by The Chartered Institute of Public Finance and Accountancy and London South Bank University (LSBU) to enhance professional development within the charity finance sector. It is the first joint professional and academic qualification for individuals working in charity finance who do not yet hold a recognised finance qualification specific to their vocation. Find out more at:

www.cipfa.org.uk/students/prospective/certificate.cfm

Charitable Incorporated Organisation – almost here?

The Charitable Incorporated Organisation (CIO) has arrived in Scotland (referred to as SCIO) and, all being well, is due to arrive in England and Wales in 2012.

The SCIO became available in Scotland in April 2012 and, since its introduction approximately 20% of new charity registrations in Scotland have adopted the SCIO structure. Existing charities in Scotland will have the option to convert to an SCIO from 1 January 2012 onwards.

In England and Wales the Charities Act 2011 (an Act to consolidate the Charities Act 1993 and other enactments which relate to charities) received Royal Assent in December 2011 and comes into force in March 2012. Following that, it is expected that the CIO will become available for new charities a little later in 2012 although existing charities that wish to convert to a CIO will have to wait a little longer.

At the time of writing, the Charity Commission for Northern Ireland has not yet begun to register charities. So the CIO is not yet an option there. For more information see:

Charity Commission (England & Wales)

http://www.charitycommission.gov.uk/Start_up_a_charity/Do_I_need_to_register/CIOs/default.aspx

Office of the Scottish Charity Regulator (OSCR)

<http://www.oscr.org.uk/scottishcharitableincorporatedorganisations.stm>

Charity Commission for Northern Ireland

<http://www.charitycommissionni.org.uk>

CIPFA Charity Accounting Toolkit

The toolkit is an online course designed for smaller charities which provides an introduction to charity bookkeeping, accounting and reporting. To find out more, see:

<http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/Product/CH001>

Workplace pensions reforms

Andrew Monroe (Employment Service manager at CA Plus) highlights major changes on the way in regard to workplace pensions which will impact on voluntary and community organisations

Currently there is no legislation that actually requires employers to make any such pension provision at all. Employers have complete discretion over whether they provide a pension or not (a decision based most likely on an ability to pay).

This however is changing, and starting in October 2012 for large employers (it will be more likely be 2015 - 2016 for small employers with less than 50 employees) for the first time ever there will be a compulsory scheme in place that will require all employers to automatically enroll employees in a pension scheme and make minimum financial contributions to it.

The minimum contributions to the Pension scheme must total 8% of qualifying earnings. This will be made up of 3% from the employer, 4% from the employee and 1% in tax rebate. Contributions levels can be higher if either the employer or employee agrees.

For more information:

The Pensions Regulator has produced an introductory guide to the new rules; available at: www.thepensionsregulator.gov.uk/docs/intro-to-work-based-pension-changes-2011.pdf

CA Plus have produced an introductory briefing paper on the topic, available at their website at: <http://www.capus.org.uk/content/pensions-pension-reform>

New technical guide to commissioning Social Impact Bonds

Social Impact Bonds are a form of financing that aligns investor returns with social outcomes: investors only receive a return if the social outcome is achieved.

Since Social Finance launched the first Social Impact Bond in September 2010 to reduce re-offending among short sentenced prisoners leaving Peterborough Prison, the concept has attracted considerable interest. There is a long way to go before they are commonly used, although a number of local authorities are now looking at this approach and are considering if and how they might be applied in their areas.

In response to this interest Social Finance have produced a paper to help commissioners consider how best to develop and procure Social Impact Bonds, including:

- when are Social Impact Bonds likely to be appropriate
- what specific issues should be considered when commissioning Social Impact Bonds

While the paper is written primarily for those involved in commissioning services, it will also be of interest to voluntary and community organisations who want to know more about how Social Impact Bonds work as well as the idea of payment based on outcomes rather than outputs.

You can download a copy of the guide from:

www.socialfinance.org.uk/resources/guide/technical-guide-commissioning-social-impact-bonds

New online social value tool - 'Your Value'

Community Matters have developed an online 'user friendly' social value tool designed to help an organisation identify the social value linked to its various activities. Community Matters state that the online tool will help organisations:

- understand terms associated with social value including 'outcomes', 'social value' and 'impact'
- make the connection between social value and key public policies for e.g. community cohesion, worklessness and sustainability
- gather facts and figures about your activities and present them in a way which is aesthetically pleasing and enlightening for funders, government and stakeholders
- store information about your activities which can be used for funding bids and other

reports which require evidence based on need, activities, value and impact

- reflect and self-assess for future planning and monitoring purposes

For more information on See:

www.communitymatters.org.uk/content/494/Assessing-Social-Value

Accounting for academies

In response to the rapid growth in school academies and the demand for accounting guidance, CIPFA has produced an electronic publication which provides detailed and practical support on academies accounting and reporting.

To find out more see:

<http://secure.cipfa.org.uk/cgi-bin/cipfa.storefront/4f0ab83a11955444273f3efdf4070663/Product/View/FANACTK1>

Contributions, Subscribing, Contacts

If you wish to subscribe or unsubscribe to this newsletter or notify us of a changed e-mail address please contact: matthew.allen@cipfa.org.uk

Further information about the panel's activities and publications is available at the panel website: <http://www.cipfa.org.uk/panels/charity/index.cfm> or from the Panel Secretary, Matthew Allen, email: matthew.allen@cipfa.org.uk or phone 020 7543 5608.

The Panel is keen to receive feedback including suggestions of topics that finance workers working in or with the charity sector would like to know more about. Also, if you have an article you'd like us to consider for inclusion in the newsletter please send an e-mail with copy attached to John Maddocks: john.maddocks@cipfa.org.uk

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