

Number 16

Spring 2011

Welcome to the sixteenth 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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Act now to influence the future of charity accounting and reporting

Nigel Davies, Technical Secretary to the Charities SORP Committee and Ray Jones, Head of Accountancy Policy, Charity Commission, consider the Accounting Standards Board's two open consultations and highlight their potential impact on the charity sector - including registered social landlords and higher and further education.

Two consultations on the future of accounting and reporting are currently open. It would be impossible to overstate their importance. The outcome of the ASB's consultation on the future of financial reporting in the UK, which closes on 30 April (FRED 43 and FRED 44) and the consultation on the new Financial Reporting Standard for Public Benefit Entities (FRED 45), which closes on 31 July 2011 could change quite fundamentally the way public benefit entities, including charities, report and account for their work.

CIPFA members working with or for charities may wish to familiarise themselves with the proposed changes and consider the impact on their charity or charity client. The new framework proposed by the ASB is very different from the IFRS based framework being used by public sector bodies including local authorities and the NHS.

The proposed new framework:

The FRED 43 consultation proposes three tiers of reporting:

- Tier 1 is EU adopted IFRS;
- Tier 2 is FRED 44, the Financial Reporting Standards for Medium-sized Entities (FRSME) ; and
- Tier 3 is the Financial Reporting Standards for Small Entities (the FRSSE) designed for small for-profit companies.

The format of a charity's accounts, its accounting policies and the extent of its disclosure of items in the notes will differ according to the tier under which it reports.

The only charities that would have to report under tier 1 are those with debt traded in a public market or take deposits as part of their primary activities. Other charities can still choose to opt into tier 1. For charities thinking of braving tier 1, remember EU-adopted IFRS is primarily designed for global commerce and is updated annually. Major changes are planned to IFRS for 2013. You will need to start preparing now because to make the switch you need at least 2 years prior balance sheets (Statements of Financial Position) restated on an IFRS basis.

The draft Financial Reporting Standard for Medium-sized Entities (FRSME) is a UK version of IFRS for SMEs. Generally, it's seen as more manageable than UK GAAP but more complex than the FRSSE. The issues that have prompted debate so far include:

- Its requirement that all charities irrespective of size, will have to provide a Statement of Cash Flows (section 5).
- Its prohibition on the revaluation of fixed assets of plant, property and equipment (section 17).
- Its requirement for capital grants to be recognised as income when receivable and prohibits deferment as permitted by SSAP4 (section 24).
- Its prohibition of capitalisation of borrowing costs on the acquisition or construction of fixed (non-current) assets (section 25).

The tier 3 option of the FRSSE based on company law definitions gives a more or less no change option for smaller PBEs but it is unlikely to be an option for RSLs or HEFE. It will be an option for those who want to stick with the current standard for smaller entities.

To view FRED 43 and FRED 44 and submit your views refer to the link:
<http://www.frc.org.uk/asb/press/pub2414.html>

The Financial Reporting Standard for Public Benefit Entities (FRSPBE):

Equally important however is the FRSPBE consultation (FRED 45). The accounting treatments it specifies will set the ground rules for the next public benefit entity (PBE) SORPs for RSLs, higher and further education and charities.

This standard which addresses key accounting issues for the PBE sector but it will not be mandatory for either Tier 1 or Tier 3 reporting under the ASB's current proposals. The feedback from the roundtables in 2008-09 on the charities SORP was that the SORP should be mandatory in this case to ensure consistent charity accounting across all three tiers.

There are certainly some complex legal and other issues about applying the standard to Tier 1 reporting and EU adopted IFRS to charities. However because tier 2 and tier 3 will be UK GAAP, the FRSPBE could be simply be applied to Tier 3 - if that's what people want.

It makes proposals in 6 key areas, the highlights of which are as follows:

- Concessionary loans are to be recognised either at fair value with subsequent measurement at amortised cost or at transaction value subsequently adjusted to reflect accrued interest.
- Property held for social benefit, for example by Registered Social Landlords, shall be accounted for as property, plant and equipment.
- For entity combinations merger accounting or gift accounting will be permitted.
- Fixed (non- current) asset impairment will be based on the higher of value less costs to sell or value in use based on either service potential or cash flows as is most appropriate.
- Funding commitments (including grants) will be recognised at fair value but need not be accrued if the commitment includes a condition that it is contingent on the availability of future income.
- Donated goods, services and facilities must be recognised at fair value. Goods donated for resale in charity shops would be valued as stock at the time of receipt and by implication detailed stock records should be maintained and adjusted for the cost of goods sold. Donated facilities are valued at the price that would be paid on the open market without an option to value it on the basis of the utility to the charity. Legacies are to be recognised when sufficiently certain of receipt upon notification by the Estate or agreement of the Estate's accounts.

To view the FRSPBE and submit your views refer to the link:

<http://www.frc.org.uk/asb/press/pub2546.html>

These changes are intended to come into force for the financial years beginning 1 July

2013. But you will have to submit a response soon if you want to influence these proposals. The aims of the ASB are to establish and improve financial standards of financial accounting and reporting. It follows that the ASB will be seeking the technical arguments if you wish to suggest they change their proposals.

Future PBE SORPs will follow the mandatory requirements of the FRSME and the FRSPBE once they have been published in their final form. The next charities SORP is likely to be consulted upon in 2012 if the ASB stay with 1 July 2013 as the implementation date for change. To learn more view the SORP Committee web page:

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

Impact reporting in the UK charity sector

Paul Breckell looks at the development of impact reporting by charities

Charities are under more pressure than ever before to show that they are trustworthy, accountable and contribute to society.

Over recent years one approach that has been taken by many charities to measure and communicate performance has been Impact Reporting, either in separate documents of the same name, as part of a charities annual report and accounts or using the internet. The whole area of external performance reporting is however complex and practise is varied. With this in mind The Charity Finance Directors' Group (CFDG) recently commissioned research to explore the current state of impact reporting in the UK charity sector.

The research was completed by two students from Cass Business School. It was completed between April and October 2010, and included an online survey of CFDG members, a series of focus groups and a review of the external reporting of a sample of 75 charities both large and small, and not limited to members of CFDG.

The research found a gap between the 'theory' of impact reporting, in which the government and sector specialists suggest that all charities can and should measure and report on their impact, and what is actually happening in 'practice'. This reinforces the view that the sector and the government to reassess expectations of what is practical or desirable for charities to measure on a regular basis.

Reporting by charities on their impact (the broader or longer term change resulting from their activities) was limited with only 8% of charities in the external review providing impact information. Many more charities (68%) provided some information on outcomes but few disclosed targets, measured the change delivered or reported failure, all of which would help stakeholders assess the difference they have made.

Explanations for this gap include significant barriers to outcome and impact reporting such as the cost. Charities reporting problems in funding the work and only 65% of respondents believing that the benefits of impact reporting outweigh the costs. Difficulties were identified in obtaining good quality baseline data.

The research also found confusion about the terminology and a lack of demand from some audiences. The diversity of a charity sector which includes organisations with a wide range of income levels, funding streams and activities mean that impact reporting is only felt to be important by some charities. The research suggests that charities may collect performance information internally but choose not to report it externally highlighting that there are sometime conflicts between the desire to be transparent and the commercial realities of the need for charities to retain some confidentiality in competitive environments.

In the future, many charities expect to see increased regulatory requirements for impact reporting, greater use of quantitative methods such as Social Return on Investment (SROI) and external verification of impact information. However, there are significant concerns about the implications of these developments for the wider sector because of the costs of data collection and monitoring. This is particularly significant with such a significant proportion of charities having an annual income of less than £1m.

The research recommends that organisations such as umbrella bodies and professional institutes should actively contribute to the debate about impact reporting, seeking to influence government policy makers and funders and explaining the practical challenges faced by the majority of charities. It should provide support to those members who wish to pursue outcome and impact reporting, recognising that the extent to which this is possible or desirable for different charities will vary.

A full copy of the CFDG publication can be found on their website:

http://www.cfdg.org.uk/cfdg/files/policy/Policy_cfdg_impact_reporting_UK_charity%20sector.pdf

Paul Breckell

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What is Big Society?

“The Big Society is what happens whenever people work together for the common good. It is about achieving our collective goals in ways that are more diverse, more local and more personal” (Source: Department for Communities and Local Government (2010) Decentralisation and the Localism Bill: An essential guide).

Big Society is a Government agenda and key themes include:

- Giving communities more powers
- Encouraging people to take an active role in their communities
- Transferring powers from central to local government
- Supporting co-operatives, mutuals, charities and social enterprises in the running of public services
- Publishing government data

One of the difficulties people have with the 'Big Society' idea is that it can be hard to pin down, partly because, although it seeks substantial changes in the way we think about and do things, it is very much dependent on how local communities and organisations on the ground apply new opportunities for local decision making, planning and development. The nature and scale of likely change is linked to many and varied types of local activity rather than one centrally configured blue print for community, individual and public service engagement.

What is clear is that the proposed changes signal a shift away from business as usual and seek to promote new relationships between government, local communities, voluntary and community organisations, social enterprises and individuals. One key aspect of this will be in terms of changes to public service delivery, including the potential for a wider range of service providers.

A range of government policies now draw on and/or link to the Big Society vision and voluntary and community organisations need to understand the practical consequences flowing from these new policies and initiatives. The better their understanding is, the better their chance of recognising both the challenges and the opportunities.

For more information

- The **Cabinet Office** website has information available at:
<http://www.cabinetoffice.gov.uk/big-society>
- **CIPFA** has a **Big Society website** with a number of resources grouped under three headings:
 - Commissioning
 - Social enterprise
 - Charities and civil society organisations

See: <http://cipfa.org.uk/big-society>

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

How to resolve your disputes in three easy steps (talk, listen, mediate)

Paul Turner, Head of Commercial Dispute Resolution at ICAEW, provides a timely reminder of the value and benefits of mediation.

Unfortunately, society is becoming ever more litigious. Charities are not immune to disputes and, arguably, disputes can be more damaging than a mere commercial dispute especially in relation to a charity's reputation. Disputes can be varied – whether, for example, they are in relation to employees, confined to the board room or between trustees and beneficiaries – and this list excludes the management time, costs and stress that is then imposed on all parties. Opening up a charity to any sort of dispute is like opening Pandora's Box!

So how can disputes be resolved quickly, amicably and more cost effectively?

'Talk, listen, mediate' encompasses the vital elements needed to create a process capable of finding a resolution. The generally accepted definition of 'mediation' is that it is a process that employs a neutral person, a mediator, to facilitate negotiations between the parties to a dispute in an effort to reach a mutually acceptable resolution. The information delivered by one party to the mediator is confidential, although specific information can be passed on to the other party with that party's permission.

Unlike an arbitrator or a judge, a mediator does not impose a solution on the parties to a dispute. The mediator will work with the parties to help them find their own resolution. The process creates an opportunity to explore underlying business interests and to examine the relationships between parties to a dispute. This can help the parties to overcome hostilities and legal posturing and can often develop creative business-driven solutions.

While courts can generally only award damages (money) or an injunction, mediation can look at a much wider range of options, perhaps even sustaining what was a very productive relationship for the benefit of all parties. The fact that a matter is very complex does not

mean it is unsuitable for mediation and the process can often create quite innovative solutions which a court or arbitrator simply does not have the ability to do. For example, the Alder Hay case (involving retained children's organs) involved 1,000 families. The matter was settled by mediation involving a package of financial redress as well as a public apology, a memorial and a Trust Fund being created.

Advantages of the process

- It is voluntary; nobody is forced to take the process and can withdraw at any time. Because of this, parties entering into the process are generally doing so because they earnestly wish to find a resolution.
- The process is flexible. Unlike at Court, there are no set rules or procedures to follow. Indeed, the mediation process can be considerably faster – often taking just a day – and can also be far more cost effective than the litigation process.
- The process is confidential. It takes place on a 'without prejudice' basis.
- Solutions are found by the parties and not imposed on them by a third party.
- Once settlement terms have been agreed, they are converted into a legally binding agreement.

To find out more

The Charity Commission provides useful information on managing conflict in charities and includes links to a number of resources. See:

www.charity-commission.gov.uk/Charity_requirements_guidance/Charity_governance/Good_governance/conapp.aspx

The Civil Mediation Council has a range of information on its website including a list of accredited mediation providers. See: <http://www.civilmediation.org>

The ICAEW offers a range of dispute resolution services which are applicable to charities. For more information see: <http://www.icaew.com/en/members/business-services/business-support/icaew-mediation-service>

Paul Turner

Head of Commercial Dispute Resolution ICAEW

Charitable Incorporated Organisation - guidance now available

The Charity Commission (England and Wales) has published the first part of its guidance for anyone interested in setting up a Charitable Incorporated Organisation (CIO). Two model constitutions for forming a CIO are also available on the website.

A Charitable Incorporated Organisation (CIO), brought in by the 2006 Charities Act, is an incorporated form of charity which is not a company. It only has to register with the Charity Commission and not Companies House and is only created once it is registered by the Commission. A CIO can enter into contracts in its own right and its trustees will normally have limited or no liability for the debts of the CIO.

The Commission has published its guidance and the model constitutions to enable charities, advisers and anyone else interested in setting up a CIO to decide if the CIO structure is the right one for them, and to familiarise themselves with the guidance and constitutions ahead of implementation. Additional guidance will be added to over the coming months.

Scotland is leading the way with organisations able to register as Scottish Charitable Incorporated Organisations from 1st April 2011. Registrations in England and Wales will begin later in the year.

At the time of writing, the Charity Commission for Northern Ireland has not yet begun to register charities.

For more information

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 and Big Society

To find out more about Big Society and CIPFA's engagement with the subject visit:

www.cipfa.org.uk/big_society

Gift Aid changes announced in budget

A number of changes announced in the budget could make gift aid more attractive and easier to manage. The changes include:

- Starting April 2011 – The gift aid benefit limits for the donor will increase from £500 to £2,500 (subject, as before, to the benefit not exceeding 5% of gift).
- Starting 2013 - A new scheme to allow charities to claim gift aid on small donations up to £5,000 a year per charity, without the need for donors to fill in any forms.
- Starting 2013 – An online gift aid system for charities to make the process easier for the charity and replacing the existing requirement to submit a written record of each donation.

For more information on the budget go to:

<http://www.direct.gov.uk/en/NI1/Newsroom/Budget/Budget2011/index.htm>

Office for Civil Society appoints strategic partners

Nine organisations/partnerships have been selected as Strategic Partners of the Office for Civil Society (OCS) and will receive a total of £8.2m over the next three years. The OCS Strategic Partners are:

- ACEVO in partnership with Euclid Network and New Philanthropy Capital
- Community Foundation Network in partnership with Association of Charitable Foundations
- Institute of Fundraising
- Locality (new name from April 2011 resulting from DTA and Bassac merger)
- NAVCA
- NCVO
- Social Entrepreneurship Partnership (School for Social Entrepreneurs, UnLtd, CAN, Plunkett Foundation and Social Firms UK)
- Social Enterprise Coalition in partnership with Cooperatives UK
- Volunteering England

The new Strategic Partners Transition programme has three objectives:

- to ensure key national representative organisations can efficiently and effectively act as a conduit between government and the wider frontline VCSE sector, communicating, and helping to support and deliver strategic policy of OCS, including the three priorities outlined by the Minister for Civil Society
 - making it easier to run a voluntary or community organisation
 - getting more resources into the sector
 - making it easier to engage with the state
- to support the VCSE sector to contribute to the development of the Big Society
- to help ensure the independence and sustainability of national representative organisations, providing a route to them becoming independent of government funding by 2014

For more information including the strategic partners transition programme go to:

<http://www.cabinetoffice.gov.uk/news/office-civil-society-appoints-strategic-partners>

Cross border charities – two reports

Cross border charities in the UK have been the subject of two complementary pieces of work in recent months, focussing on reporting and governance.

Firstly, following the introduction of the Office of Scottish Charities Regulator's (OSCR) bespoke monitoring regime for cross border charities in spring 2009, OSCR has undertaken an evaluation of the regime and charities compliance with the reporting requirements. The evaluation report has been published on the OSCR website and may be accessed via the link below. In addition to an evaluation of the monitoring processes, there is some useful profiling information contained in the report regarding the cross border charity sub-sector. See:

<http://www.oscr.org.uk/newsitem.aspx?id=f936ede3-4347-4a6e-8384-e362d7ac2c84>

Secondly, the Evolving Leadership and Governance Forum held a workshop in September 2010, looking at governance of cross border charities which considered case studies as well as a presentation from OSCR, all of which contributed to a wide ranging discussion. Guidelines which summarise the discussion and conclusions have been published by the Forum. See:

<http://microsites.scvo.org.uk/scvocms/images/Information%20Service/governance-and-cross-border-uk-charities.pdf>

CIPFA Charity Accounting Toolkit

The toolkit is a web-based self-taught course produced in partnership with BPP Learning Media. It is designed for treasurers, workers and volunteers in small to medium sized charities. To find out more visit:

<http://secure.cipfa.org.uk/cgi-bin/cipfa.storefront/4d9217880908b3d427403efdf4070658/Product/View/CH001>

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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