

CIPFA\Charities & Social Enterprises Panel Newsletter

Number 20

Spring 2013

Welcome to the twentieth issue of the newsletter for CIPFA members and others working in or with the charity and social enterprise sectors. This newsletter is brought to you by the CIPFA Charities & Social Enterprises Panel.

Contents

New code of practice for cross sector collaboration	1
Taking the next steps to a new style of charity accounting and reporting.....	2
Do you understand your financial risks?.....	3
My community rights website.....	5
How comfortably are you sitting?	6
Public Services (Social Value Act) 2012	7
New TISonline information stream - Charities and social enterprises	8
Contributions, Subscribing, Contacts	9

New code of practice for cross sector collaboration

NCVO and the services provider SERCO have produced a joint code of practice aimed at improving relationships between prime and subcontractors involved in public service delivery.

The Code of Practice developed by NCVO and SERCO is intended to help prime and subcontractors, including private and voluntary sector organisations, collaborate more effectively and reduce the sorts of problems encountered by some subcontractors in these types of service delivery arrangements.

The Code addresses a range of issues to do with the relationships between prime and subcontractors, and provides advice on:

- Setting reasonable expectations

- Having strong mechanisms for open dialogue between contractors
- Developing financially sustainable models

Sir Stuart Etherington, Chief Executive of NCVO, is reported as saying:

'We are certainly not saying subcontracting is always the right way to deliver public services. But where services are delivered in this way, we want to make sure that they are delivered well and that subcontractors are treated fairly.'

The code of practice is available for download at the NCVO website at: www.ncvo-vol.org.uk/advice-support/public-service-delivery/consortia-subcontracts/privatesectorworking

Taking the next steps to a new style of charity accounting and reporting

Nigel Davies, Technical Secretary to the charities SORP Committee, looks at the latest developments in UK accounting and how these have shaped the new Accounting and Reporting by Charities: the Statement of Recommended Practice (SORP)

The journey to the new SORP has taken far longer than anticipated, but the destination is in sight. In March this year, the Financial Reporting Council (FRC) approved the new Financial Reporting Standard applicable in the UK and Republic of Ireland (commonly known as FRS 102). This step allowed the SORP Committee to complete the process of drafting the new SORP, which is now being submitted for FRC review.

The new SORP is likely to be published for consultation in July. The exact timing is dependent upon FRC approval. For more information on developments, keep an eye on the SORP Committee pages:

www.charitycommission.gov.uk/Charity_requirements_guidance/Accounting_and_reporting/Preparing_charity_accounts/comlatest.aspx

The corporate trustee in the context of the NHS or local authorities needs to be aware that the new SORP is not written in accordance with EU adopted international financial reporting standards. It follows that when required to consolidate 'controlled charities' into the statutory accounts of the corporate trustee, there may be adaptations required for group accounting policies.

The new SORP is designed to support charities reporting both under the new standard FRS 102 and the Financial Reporting Standard for Smaller Entities (FRSSE). The FRSSE is a simplified reporting framework developed for for-profit companies. Although not used in public sector accounting, the FRSSE offers a simplified solution to preparing the accounts.

For the first time the SORP will fully support the simplified FRSSE approach to reporting which involves making fewer disclosures in the notes to the accounts and not producing a statement of cash flows. The FRSSE approach is only available to those charities which meet the size criteria, including gross income of £6.5m or less. However the FRSSE may not be the most suitable option for all charities that are eligible to use it. Some charities may appreciate the greater depth of reporting offered by preparing the accounts under FRS 102.

FRS 102 is now available to view via the FRC website: www.frc.org.uk/News-and-Events/FRC-Press/Press/2013/March/FRC-issues-FRS-102.aspx

FRS 102 is a comprehensive standard, so it brings together for-profit accounting and aspects of not-for-profit accounting. Inspired by International Financial Reporting Standards for Small and medium-Sized Enterprises (IFRS for SMEs), it is a modern standard separated into 35 chapters. Chapter 35 deals with first adoption of FRS 102 and will be a must read for any charity reporting under FRS 102 as it offers a number of simplifications when restating the prior year comparatives.

Although the new SORP provides application guidance, like the existing SORP 2005, there are certain topics where you will need to look to the standard itself. In the case of FRS 102 this would include topics such as: leases, complex financial instruments, 'hedge accounting', foreign currency translation, income tax, and accounting for agriculture and employee benefits, in particular accounting for defined benefit pensions. Awareness of FRS 102 and its contents will be invaluable to the Finance Director and will be essential for those charities too large to report under the FRSSE.

All this change takes effect for financial years beginning 1 January 2015. In the meantime your input into the coming consultation on the new SORP will be invaluable. You can expect that consultation this summer with the publication of the draft SORP.

Do you understand your financial risks?

Grenville Page considers financial risk and sets out a series of questions to help with identifying and assessing the risks facing charities and social enterprises in these challenging times. Grenville is a member of the CIPFA Charities and Social Enterprises Panel.

The financial challenges and risks facing civil society organisations and social enterprises have never been greater and there is little sign that this will change any time soon. Many organisations face increasing pressure on income streams and costs, competition for funding, and higher demand and need for their services. Social, economic and environmental challenges are significant. Increasing deprivation, an ageing population, high youth unemployment, shortage of affordable homes, and welfare reforms that will give rise to increasing levels of hardship are just some. Commissioners demand more for less,

seeking greater personalisation in services, and looking for more imaginative and joined up service delivery. With greater scrutiny and regulation, demands and expectations of Board members (executives and trustees/non-executives) and staff are increasing.

These are unprecedented times. The financial risks are huge. But there are still many opportunities to equip your organisation for longer term sustainability and success. Here are just a few questions for you and your Board to think about:

- Are you getting the right **financial information** in the right format that immediately tells you - how you are doing in-year, the forecast for the year, movement in reserves, and projections beyond the current year. Has this data proved to be reliable in the past? Or, do you get tables of unqualified data taking a long time to understand, where messages are less than clear?
- Have you got clear **financial projections** for next year and beyond aligned to your business plan and what are they telling you? Do you understand the impact on your reserves?
- Do you have the resources to keep doing what you are doing? What could you stop doing?
- Are you effectively managing the **collection of your income**? Do you know how long your debtors are taking to pay you? Are you keeping a keen eye on your cash flow?
- Do you know what's in the balance sheet – any zero (or negligible) value assets in there?
- Are you maintaining and **building relationships with commissioners of your services** now or in the future – this is particularly true given the upheaval in public bodies - new commissioning arrangements, transfers of responsibilities and significant changes in roles of senior staff. Do you know what their priorities are now? How can you innovate or expand what you deliver to make it more attractive to an even wider market?
- Do you **understand your costs** – fixed, variable, indirect, direct? What margins do you need to cover overheads in tender bids? Not easy to get the recovery rate right if you are unsure about the likely income base for the year.
- Have you done any **scenario planning** – best and worst case. Do you know how sensitive your forecasts are to changing interest rates, energy price rises, loss of rental income, level of voids and bad-debts etc?
- Do you have enough information about your service users/customers to understand the likely **impact of the welfare reforms**?
- **What functions could you out-source or share** with other organisations?

- Are you getting the right level of strategic thinking in managing your finances?
- Have you thought about how you could **work with other organisations** to deliver more joined-up service, to save overheads, or enhance access to skills?
- Do you know your **critical performance indicators** and associated targets and do you regularly monitor performance and take any decisive action needed?
- Do you know how close to the wind you may be sailing on the **covenant requirements of any loan finance** you may have?
- Are your **auditors** adding real value to your organisation? Is their work identifying key issues and helping you act on emerging or potential risks?
- Do you understand how your **tax position** may change as your activities change?
- Are you prepared for changes arising from real time payroll information, auto-enrolment, possible accounting standards or other **legislative requirements**?

The good news is that there are techniques, tools, and individuals to help you address these issues. The essential requirement is that time is made available to think and speak about them openly, and for the Trustees or Board to work together to agree the next steps and take actions.

My community rights website

The My Community Rights website is managed by Locality and provides useful information on policy and related practical initiatives linked to localism and community involvement.

Information included on the website covers:

- Community right to bid
- Community asset transfer
- Community right to Build
- Community right to challenge
- Neighbourhood planning

The website explains each of these initiatives and also provides links to sources of further advice and support including sources of funding. There is also a section devoted to case studies. For more information, visit the website at: <http://mycommunityrights.org.uk/>

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:

<http://prospectus.lsbu.ac.uk/courses/course.php?CourseID=9364>

How comfortably are you sitting?

A second article from Grenville Page but this time focusing on Governance. Grenville is a member of the CIPFA Charities and Social Enterprises Panel.

Civil society organisations are coming under greater scrutiny and regulation, and the demands and expectations being placed on both board members (both executives and trustees/non-executives) and all staff are increasing. In addition the current economic climate and the financial challenges flowing from this, present considerable challenges for those involved in the governance of charities and social enterprises.

But the current climate also provides opportunities for civil society organisations to reassess their strengths and weaknesses with a view to becoming more robust. The old order is changing, and now is the time to look to the future - your competitors, your strategy, your priorities, your services, your business model, the way you work, how you make decisions and gain assurance, and make necessary changes to put your organisation on a firm footing for longer term sustainability and success.

Some questions to ask:

- What has your Board and the Trustees/non-executives done so far?
- Have they taken themselves away and really looked towards the future and undertaken some strategic business planning?
- Have they considered the risks and opportunities, strengths and weaknesses, external influences, competitors, service trends, joint working and sharing of skills and processes?

Not to mention sustainability, the financials and future skills needed. The list of issues is a long one, and increasingly boards and trustees need plans to tackle the longer-term as well

as the current or next year.

The board (which is ultimately responsible for the overall direction and success of the organisation and ensuring that the organisation is doing the right things, in the right way, at the right time) must continually provide the necessary steers as it moves forward. It must satisfy itself that milestones and targets are being met – in terms of service development and delivery responsibilities, and in managing the business – financials, employee responsibilities, health and safety, regulatory compliance, equality and diversity, disability – another long list.

But what information is the Board getting to help it make decisions? What assurance does it have that the organisation is meeting its responsibilities? Is the right information being provided in the right format, is it concise and clear? Have you recently reviewed what information you really need to help you understand the organisation's performance and assure you that all is in order? Where there are challenges and risks are you confident that appropriate and timely action is being taken?

Those engaged in the governance of an organisation need to make that they have the time and space to consider these and other questions. A healthy governing body is an essential requirement for long term sustainability. Working through the sorts of questions raised above is one approach to taking stock, engaging board and staff members, assessing the 'position' of the organisation, and ensuring the organisation's goals and objectives are still relevant and take account of the changing social and economic environment.

CIPFA Charity Accounting Toolkit

The toolkit is an online course designed for smaller charities and 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>

Public Services (Social Value Act) 2012

This Act received Royal Assent on 8 March 2012 and came into force in January 2013. The Act requires certain public authorities at the pre-procurement phase of procuring services to consider how what is being procured might improve the economic, social and environmental wellbeing of an area and how the authority might secure that improvement in the procurement process itself. There is also a requirement that authorities consider whether to consult on these matters.

The Act extends to England and Wales, although its application to Wales is limited. The

provisions do not apply to procurement by authorities which exercise functions that are wholly or mainly devolved in Wales. The Act does not extend to Scotland or Northern Ireland. Bodies in England that are required to comply include local authorities, government departments, fire and rescue services, housing associations and the NHS.

The GOV.UK website includes the following example:

'As an example of what the Social Value Act might mean in practice, if a local authority wanted to provide a 'meals on wheels' service for elderly people, it might first speak to potential users and suppliers along with other interested stakeholders. If the results of the consultation showed that many potential users suffer from loneliness and social isolation, it might be recommended that a service where people are collected and taken to a local community centre for their meals would help combat these problems of loneliness and isolation.'

Source: <https://www.gov.uk/government/news/significant-boost-to-social-enterprises-as-the-social-value-act-comes-into-force> (2013)

The Act applies to public services contracts, including those with only an element of goods or works, but it does not apply to public work contracts or public supply (goods) contracts.

The Act and explanatory notes are available at:

www.legislation.gov.uk/ukpga/2012/3/contents/enacted

Social Enterprise UK have produced a guide to implementing the Act. A pdf version of the guide can be downloaded at:

http://www.socialenterprise.org.uk/uploads/files/2012/12/social_value_guide.pdf

New TISonline information stream - Charities and social enterprises

TISonline is CIPFA's online information resource for financial managers. It provides over 30 information streams of guidance and commentary covering the financial, legislative, administrative and strategic context to services delivery.

A new TISonline Charities and Social Enterprises information stream provides a wide range of practical information for social enterprises and charities especially in relation to their involvement in delivering public services.

The content is designed to be relevant to both those working in charities and social enterprises, as well as by those looking to develop social enterprises and by funders, commissioners or partners.

Additional sections will be added throughout the year, and TISonline information streams

are supported by news, discussion forums and e-alert services.

For more information visit the TISonline website:

<http://www.tisonline.net/>

And the charities and social enterprises information stream:

<http://www.tisonline.net/socialenterprise/default.asp>

Accounting for academies – 2013 edition

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. The 2013 edition of this publication is due out in May 2013.

To find out more see:

<http://www.cipfa.org/Policy-and-Guidance/Publications/A/Accounting-for-Academies-Business-Solutions-for-Financial-Reporting-2013-Edition>

Contributions, Subscribing, Contacts

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

Further information about the panel's activities and publications is available at the CIPFA website: <http://www.cipfa.org> or from the Panel Secretary, Julian Smith, email: julian.smith@cipfa.org

The Panel is keen to receive feedback including suggestions of topics that finance workers working in or with the charity and social enterprise sectors 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

John Maddocks is Technical Manager: Third Sector john.maddocks@cipfa.org

Julian Smith is Charities & Social Enterprises Panel Support Officer: julian.smith@cipfa.org