CIPFA\Charities & Social Enterprises Panel Newsletter

Number 19 ***Winter 2012***

Welcome to the nineteenth 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

The social impact bond goes local

Essex County Council has commissioned a social impact bond in Children's Services. Is this likely to be the first of many local social impact bonds and what does it mean for charities and social enterprises engaged in public service provision?

Essex County Council is the first local authority to commission a social impact bond designed to deliver local intervention programmes for young people at risk of going in to care. Social Finance was awarded the contract by the council and has raised £3.1 million to fund interventions for 11-16 year olds aimed at improving the likelihood of young people 'at the edge of care or custody' remaining safely at home rather than going in to care.

The interventions are funded by social investors (including Big Society Capital and Bridges Ventures) and the level of financial return for these investors is linked to the results (or outcomes) of the funded interventions. It is effectively a type of payment by results scheme but with investors funding the services and taking on some of the risk in regard to achieving agreed outcomes.

The Essex social impact bond will fund a five year programme designed to provide support to about 380 young people and their families. The agreed target is to divert around 100 young people from entering care, with success being measured in terms of a reduction in days spent in care, improved school outcomes, wellbeing and reduced reoffending. If the interventions are successful and agreed targets are met then the investors might expect a return of around 8 to 12%. If the interventions fail to meet targets then the local authority does not pay anything to the investors.

So what does this mean for charities and social enterprises? Well it is likely that they will be in a position to provide the sorts of services and programmes funded by social investors through social impact bonds. In the case of Essex, for example, the intervention programme is being provided by Action for Children, a charity which works with children and young people of all ages and runs a range of projects across the UK.

And we are likely to see more of these locally designed social impact bonds delivering a variety of services. In November the Cabinet Office launched a 'Social Outcomes Fund' which is a £20 million top up fund to support new payment by results and social impact bond contracts. '*The Fund encourages active engagement from the Voluntary Community and Social Enterprise (VCSE) sector to enable service redesign and will accept expressions of interest by any interested party such as a commissioner, service provider, intermediary or investor' (Cabinet Office 23 Nov 2012)*.

For more information on social impact bonds see the Social Finance website www.socialfinance.org.uk

CIPFA have produced a publication on '***Accounting for payment by results schemes including social impact bonds***' which looks at the accounting from the commissioners side of the contract and provides a number of worked scenarios. For more information see: www.cipfa.org/Policy-and-Guidance/Publications/A/Accounting-for-Payment-by-Results-Schemes-including-Social-Impact-Bonds-Hard-Copy

Individual donations declining

Anne Davis from ICAEW takes a look at the UK Giving 2012 report and the decline in donations to charities.

According to the **UK Giving 2012** report by NCVO and CAF, donations to charities fell by 20% in real terms between 2010/11 and 2011/12 (a drop of £2.3bn in real terms). The report also suggests that the number of people giving to charity has declined and the amounts they gave also fell.

The report is based on a survey of more than 3,000 people by the Office for National Statistics. Key findings include:

- Total donations fell by 15% in cash terms and 20% in real terms (i.e. adjusted for inflation) between 2010/11 and 2011/12. However, participation in charitable giving remains widespread: more than half of the UK adult population (28.4m) gave to charity.
- Estimated total donations to charity were £9.3bn, down £1.7bn on 2010/11 in cash terms and £2.3bn in real terms (i.e. adjusted for inflation). The proportion of people donating to charitable causes in a typical month fell from 58% to 55% in the past year.
- The average (median) amount given per donor in a typical month fell from £11 in 2010/11 to £10 in 2011/2012.
- Medical research, hospitals and hospices, and children and young people are the most popular causes among donors, but religious causes received the largest average donations.
- Women continue to be more likely to give to charity than men, with 58% of women giving to charity in a typical month compared with 52% of men.
- Cash is the most common form of giving (over 50%) in 2011/2012. Direct debit accounts for 31% of the total amount donated, an increase of 6% from 2010/2011.
- For the first time since the survey began, the proportion of donors using Gift Aid has dropped; from 42% in 2010/11, it fell to 39% in 2011/12. The decrease in Gift Aid use is concentrated among those making smaller donations (less than £25).

A number of people have commented on these findings in a recent BBC article (see **www.bbc.co.uk/news/uk-20304267**).

So to what extent do the findings of this report reflect your own experience? The ICAEW have an online blog called 'talk charity' which is free and open to anyone to participate in and they would be interested to hear your views on this and other charity related topics. To find out more visit the 'Talk charity blog' at: http://www.ion.icaew.com/Charityblog

A look at measurement of volunteer time in charities

Carl Allen considers various ways of looking at volunteer time and asks if we need to find a new way of recognising and reporting its importance for public service delivery in this new era. Carl is a member of the CIPFA Charities and Social Enterprises Panel.

It would be odd, to say the least, if the annual statements of an organisation in a regulated sector did not include an accounting measurement of a significant resource used in delivering its objectives. Nonetheless this is usually the case for the resource known as 'volunteer time'.

What is volunteer time? It is *'... unpaid non-compulsory work; that is, time individuals give without pay to activities performed either through an organization or directly for others outside their own household'* (ILO Manual on the measurement of volunteer work, 2011).

Volunteer time is a significant resource. Were some volunteer dependent charities not in existence, the public clamour for services delivered by those volunteers would be so great that the other sectors would more than likely have to step in. The examples below give an idea of the size of the potential service burden for just two services.

Would, for example, coastal local authorities and the boating and sea bathing public tolerate the non-existence of a lifeboat service? The Royal National Lifeboat Institute has 31,500 volunteers and ran at a cost of around £385,000 a day in 2011, all of which is funded by public giving (see http://rnli.org/aboutus/aboutthernli/Pages/Running-costs.aspx)

And in 2006 the economic value of volunteer time to hospices was valued at £122m (see www.helpthehospices.org.uk/about-hospice-care/facts-figures/). Without hospices, where would the demand fall and what would be the impact on the facilities, staff and budgets of hospitals and local authority services?

Recent developments and discussions of how best to utilise volunteer time have included the promotion of Big Society and new mechanisms for encouraging local self-help and public service delivery. But how easily do existing ideas and models of volunteering fit with this agenda?

The volunteer may find themselves engaged in a service environment where the public sector and government may be reducing and/or redefining its public service delivery involvement, from education to leisure, from libraries to waterways. The volunteers and their organisations may find themselves managing a process which requires substantially more volunteer time as the types and range of volunteer supported services needed changes and develops.

So perhaps now more than ever it is important that we are able to identify and measure and report with clarity on the scope and amount of volunteer time and its importance for many member based charities and social purpose organisations.

So how do we measure volunteer time? Broadly speaking we can call volunteer time an input and the output (or contribution) is whatever happens as a result of the volunteer time used. For example, a beneficiary receives a service or a back office task is performed or a campaign is created or a product made or a new idea for a service is developed.

But how is volunteer time currently reported on? We see volunteer time reported on at different levels including at the **sector wide level** and at the level of the **individual organisation**.

Sector level

The following is an example of putting a financial value on volunteer input at the sector level.

> 2011 UK Voluntary Sector Workforce Almanac 2011 pg 15 includes the following: '...*If the number of people in England who volunteer once a month (10.6 million people) were to be replaced with paid staff it would require 1.1 million full-time workers at a cost of £19.4billion to the economy (based on the median hourly wage).'*
>
> (Source www.tsrc.ac.uk/LinkClick.aspx?fileticket=tBYav7aiQf8%3D&tabid=849)

The above estimate is about as good as it gets for measurement at the macro/sector level. But is it appropriate to apply a median hourly wage for employees to volunteering which represents a very different activity to paid work? Also what does it tell us much about the impact of volunteering on public sector services and the public purse? Arguably not much.

Individual organisation

At the organisational level volunteer time is often reported as a non-financial narrative statement on the activities of volunteers. Where a financial measurement is applied it is usually in terms of an estimated market cost of replacing volunteer hours approach. It is much rarer, however, to find charities measuring and quantifying the impact of their volunteer work on public finance or on public service provision.

Should we be measuring the impact of volunteering on public service provision?

In the current strained funding environment, there is likely to be considerable interest in an organisation's impacts and, crucially, how they do (or don't) link to improved outcomes for service users but also any resulting savings for public services. It is this combination of better outcomes and related savings for public services that has the potential to provide a powerful driver for change in social programmes and service delivery.

While much work has already been done on impact reporting and social return on investment, arguably there is still more to do in ensuring we have reliable measures and assessments of the extent to which these impacts and social returns make a difference. One aspect of this is in identifying and understanding their impact (short term and long term) on other public service provision.

- NOTE Please send any questions or comments you may have to carlcecilallen@aol.com

New legal form for charities is almost here

The charitable incorporated organisation (CIO) structure has so far only been available in Scotland (since April 2011), but that is about to change. The Cabinet Office website states that implementation of the new legal form in England and Wales is progressing. The CIO is expected to become available once three required statutory instruments are in place (these instruments address certain regulations and amendments).

Once that process is completed, the Charity Commission for England and Wales will then introduce the CIO as an option to new charities. Existing charities wanting to convert to the new form will have to wait a little longer as Parliament will need to approve separate conversion regulations. All being well, we should see new CIOs in England and Wales in 2013 and the conversion option for existing charities possibly becoming available in 2014.

So what does this mean for a new enterprise looking at options for incorporating? The CIO offers the advantages of a corporate structure such as reduced personal liability while removing some of the regulatory complexity. The CIO registers solely with the charity regulator and is not regulated by Companies House.

The Charity Commission suggests that a CIO will be most suitable for small to medium-sized organisations that employ staff and enter into contracts. For those wanting an incorporated form it offers simpler reporting, simpler accounting where gross income is £250,000 or less and it offers lower administrative and filing costs.

It makes life a little easier for new social enterprises able to embrace charitable purposes. Providing a simpler way for getting new charitable enterprises up and running, while also providing the benefits of a corporate structure. For more information on CIOs see:

Scotland: http://www.oscr.org.uk/about-scottish-charities/scio

England and Wales:
http://www.charitycommission.gov.uk/Start_up_a_charity/Do_I_need_to_register/cios/default.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:

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

Support service for developing public service mutuals

The Cabinet Office has two initiatives offering a range of information and support to new and developing public service mutuals. These are the **Mutuals Information Service** and the **Mutuals Support Programme**. It is worth noting that these initiatives take a broad view of the term 'mutual' with a variety of mutual models falling within the criteria, including multi-stakeholder models.

Mutuals Information service

The Mutuals Information Service provides advice and information and includes resources for staff, commissioners and suppliers. Areas covered include information on what a public service mutual is, how to set one up, case studies, and a resource library providing access to templates and guidance. To find out more, go to: http://mutuals.cabinetoffice.gov.uk

Mutuals Support Programme

The Mutuals Support Programme provides professional support to new and developing mutuals. The Mutuals Information Service refers eligible organisations for this support. Further information including referrals criteria can be found at: http://mutuals.cabinetoffice.gov.uk/further-information-mutuals-support-programme.

Those at the early stages of developing a public service mutual can access support directly online, while those from established mutuals and those who have already left the public sector but continue to deliver public services and want to become a mutual can call the helpline (0845 5390 543).

You might also want to look at the **new CIPFA publication** on '***Staff mutuals and public service delivery'.*** It looks at what staff mutuals are, the benefits and challenges associated with them, and various aspects of their operation including governance, financing, and accounting. For more information see: http://www.cipfa.org/Policy-and-Guidance/Publications/S/Staff-Mutuals-and-Public-Service-Delivery

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

Last chance to enter charities online reporting awards!

Entering the ICAEW **Charities Online Financial Reporting and Accounts Awards** is a great way to recognise those charities that have successfully embraced online financial reporting.

Nominations are open to all. Just send ICAEW an email with contact information and website links to the charity's statutory accounts and other financial reports. A help sheet which includes tips and advice for meeting their criteria is available at: www.icaew.com/cofra **Deadline is 31 December 2012!**

The awards aim to increase transparency, raise the standard of online financial reporting and encourage more charities to use this method when doing their financial reporting. Winners and runners up from 2012 included Cancer Research, Macmillan Cancer Support, Breakthrough Breast Cancer and Impetus Trust. All shortlisted charities will receive free places to attend the Charity Awards evening on Monday 24 June 2013, Chartered Accountants Hall, London.

Changes to company audit thresholds

Companies that qualify as a small company under section 382 of the Companies Act 2006 can take advantage of an audit exemption option. New regulations have come into force for financial periods 1 October 2012 onwards, which bring mandatory audit thresholds in to line with the 'small company regime' accounting thresholds.

The new regulations mean that companies that are SMEs, including charitable companies, could be eligible for an audit exemption under the Companies Act if for the last two years they have met any two out of the three criteria:

- no more than 50 employees
- no more than £3.26 million gross assets
- less than £6.5 million in turnover

However, its applicability to charitable companies is limited as any charity will still be required to undertake an audit if it exceeds the Charities Act thresholds of income (or group income) greater than £500,000 (or alternatively an income greater then £250,000 if the gross assets are also greater then £3.26m). Social enterprise companies that are not charities will of course not have to deal with these Charities Act thresholds.

There is also another new category of audit exemption under the Companies Act. Any subsidiary can be audit exempt if, amongst other conditions, the parent guarantees all the outstanding liabilities of the subsidiary at the balance sheet date. Thus a parent social enterprise might consider a statutory guarantee over the liabilities of the subsidiary company.

However, in relation to charities, the subsidiary would still have to consider whether an audit under the Charities Act remains a requirement. Also keep in mind that it would be inappropriate for a charity parent to guarantee the liabilities of a non-charity trading subsidiary. The Charity Commission have produced a useful FAQ on this aspect. See: http://www.charity-commission.gov.uk/faqs/sending_annual_returns/id247.aspx

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://www.cipfa.org/Policy-and-Guidance/Publications/A/Accounting-for-Academies-Business-Solutions-for-Financial-Reporting

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 Support Officer, 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