



VSSN is a Registered Charity in England & Wales no 1114742

Mr Nigel Davies
Secretary to the SORP Committee
Charity Commission

By e-mail SORP.thefuture@charitycommission.gsi.gov.uk

4 November 2013

Dear Mr Davies

VSSN Response to Charities SORP Consultation

The Voluntary Sector Studies Network (VSSN) is pleased to submit the attached response to the consultation.

VSSN is itself a registered charity, but we are responding primarily on behalf of a body of researchers which make extensive use of charity accounts – rather than in terms of the impact on VSSN itself (VSSN's own accounts are currently prepared on the receipts and payments basis).

Thank you for considering these comments.

Yours sincerely

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VOLUNTARY SECTOR STUDIES NETWORK

RESPONSE TO CONSULTATION ON THE DRAFT CHARITIES SORP

October 2013

1. About Us

The Voluntary Sector Studies Network (VSSN) is a registered charity in England and Wales which brings together a wide range of individuals and organisations concerned with the study of the voluntary sector in the UK. The membership and activities of VSSN are UK-wide (and there are also some overseas members who have research interests regarding the sector in the UK).

VSSN at 31 July 2013 had 137 individual and 7 organisation members (which cover an additional 28 individuals) making a total of 165 members.

It also runs an email discussion list which had 505 subscribers as of 15 August 2013.

VSSN brings together most of the UK's leading researchers in this field – the membership includes people from almost all UK Universities undertaking research on the voluntary sector, and a wide range of other leading researchers based directly in charities with research departments. VSSN is the sponsor of *Voluntary Sector Review* – the only research journal in this field to be published in the UK; it also organises various conferences and seminars.

2. The Working Party

This response was prepared on behalf of the VSSN by a working party whose members were as follows:

Professor Gareth Morgan - Sheffield Hallam University (Chair)

Peter Bass – National Council for Voluntary Organisations (NCVO) Research Associate

Dr David Clifford – University of Southampton & ESRC/Cabinet Office Third Sector Research Centre

Dr Bryan Collis – Wales Council for Voluntary Action (WCVA) Research Officer

David Kane – NCVO Research Team

Professor Cathy Pharaoh – City University & ESRC Centre for Charitable Giving & Philanthropy

All members of the Working Party are members of VSSN but they took part as individuals: the views expressed in this response do not necessarily represent the views of their employing organisations.

3. Our reason for responding

This response reflects the position of a very significant group of users of charity accounts – those who use charity accounts for research.

Our comments reflect the *implications for research* of the proposed changes to the SORP.

A great deal of the understanding of the voluntary sector in the UK – for example a good deal of the information which appears in the NCVO Almanac, many papers reporting trends in the sector, and some studies undertaken for charity regulators – are based on research using charity accounts.

Some work is also undertaken using the accounts of non-charitable organisations in the third sector – but charity accounts have two particular advantages:

- at least in England and Wales for charities over £25K income they are readily available from the regulator (the Charity Commission); and
- apart from smaller charities using the receipts and payments basis, the vast majority of these accounts are prepared at least ostensibly in accordance with the Charities SORP, which can provide a high level of consistency between different charities, allowing very effective findings.

Research using charity accounts ranges from in depth qualitative studies comparing small numbers of charities working in particular fields, to large scale statistical studies of the sector as a whole. There is no other comparable source of systematic statistical information on charitable organisations. Apart from work using the financial statements of listed companies, we consider that charity accounts may be studied more widely than accounts in any other sector. For example, one team represented in this Working Party regularly reviews around 10,000 sets of charity accounts per year, collecting over 200 variables from each set.

We also draw attention to much other comparative work on charity accounts undertaken by or on behalf of funders or major donors.

The SORP Committee may also find it useful to refer to the following papers discussing the use of charity accounts in research:

- Morgan, GG (2011) *The use of UK charity accounts data for researching the performance of voluntary organisations* (Voluntary Sector Review • vol 2 no 2 pp213–30 <http://doi.org/10.1332/204080511X583869>)
- Kane, D (and five others) (2013) *Collecting and classifying data from charity accounts for England and Wales* (Third Sector Research Centre Working Paper 93 <http://www.tsrc.ac.uk/LinkClick.aspx?fileticket=CxnVI35ArZ4%3d&tabid=979>)
- Pharoah, C. (2008-2011) Introduction to annual editions of the *Charity Market Monitor*, CaritasData/Cass Business School (available on request).

4. General Comments on the Exposure Draft

- 4.1 We recognise that the SORP, and the latest proposed changes to the SORP, are not designed with research in mind. We also recognise that many of the proposed changes, in order to reflect the requirements of FRS102 or the new FRSSE are unavoidable.
- 4.2 Nevertheless, as researchers, one of the things we are most interested in is the consistency of reporting criteria over time. There is much government and other policy and research interest in assessing how charities, and the charitable sector, are changing – particularly in terms of the nature of their income composition. Significant changes in accounting criteria can make it hard and sometimes impossible to distinguish real, substantive trends from artificial trends reflecting changes in reporting.
- 4.3 We also draw attention to the confusion which ensues with each change to the SORP. If we could be certain that a given set of charity accounts was prepared *either* under SORP 2005 *or* under SORP 2015 (as we are calling the new SORP) it would not be too bad. But the experience from the introduction of SORP 2005 was that only a minority of charities properly embraced the requirements of SORP 2005 and there were examples in (say) 2007/8 of:
- charities continuing to follow SORP 2000 with no obvious awareness of SORP 2005
 - charities whose accounts claimed to be prepared under SORP 2005 but with no actual change in the presentation compared to their former accounts under SORP 2000
 - charities which kept to the SORP 2000 principles but simply changed the headings – e.g. presenting the former figures for “management and administration” as “governance costs” – but with no changes to figures included in the heading
 - charities which adopted the SORP 2005 SOFA layout but not the changed principles of measurement (e.g. on multi-year grants)
 - charities which adopted SORP 2005 and applied it fully.
- 4.4 We suggest this sort of confusion is a problem for *all users* of charity accounts, not just researchers. *It follows that the reliability of charity accounts is likely to be improved with the fewest possible changes to the requirements.*
- 4.5 Accordingly we urge the SORP Committee to review all the proposed changes, and only to proceed with those that are necessary to comply with FRS102 or the new FRSSE. Where FRS102 or the FRSSE allow for more than one possible approach, the SORP should follow existing approach of SORP 2005 unless there is a compelling case for change.
- 4.6 In terms of the implications for research using charity accounts, it may help to consider three types of changes.
- (a) Changes in accounting definitions are particularly problematic, especially where a term used in accounts under SORP 2005 is used in a new sense in SORP 2015. For example finance costs under SORP 2015 may include internal costs of unwinding discounts on long term commitments, rather than external finance costs (exposure draft para 11.12). Likewise, the decision to omit governance costs from the SOFA in SORP 2015 will mean that former headings are adjusted to include governance costs, so the meaning of former headings is changed.

- (b) Changes of headings are less problematic if applied consistently and if there are no changes of definition. So we have fewer problems *in principle* with replacing the SOFA heading “Voluntary Income” with “Donations” or “Donated Income” if the terms are identical – we would prefer “Donated Income” as we feel many will interpret “Donations” too narrowly. But the idea that this is purely a re-labelling does not appear to be the case because, for example, SORP 2015 seems to require many grants which were previously included under “Income from charitable activities” to appear on this line from now on (para 4.32).
- (c) Changes in recognition and measurement criteria are not necessarily problematic if they simply shift income between years in a way that will average out over time. However, changes which will permanently alter asset values (e.g. assigning a value to donated stock when this was not done before) should only be introduced when unavoidable, as they introduce a fundamental inconsistency when comparing accounts over time.

4.7 Nevertheless, we accept that some categories and headings in SORP 2005 were widely misunderstood, and some changes may be beneficial if they will ensure better consistency for the future. But it is important that these are implemented as “one-off” changes for the longer term, not issues to be amended at the whim of each successive SORP Committee.

In particular, we strongly welcome the greater clarity of SORP 2015 in distinguishing grant and contract income, and we accept that some change in the SOFA headings is necessary to achieve this. However, it is vital when the new SORP is issued that changes of this kind are clearly communicated: charities which currently include grants which are not performance-related under “Charitable activities” need to realise that under SORP 2015 these grants *must* appear under “Donated income”.

4.8 However, in terms of use of charity accounts for research, the functional split of income and expenditure on the SOFA is rarely very useful – it is often more important to know the *sources* of income (e.g. government funding, individual donors, etc) rather than the functional category. But the categories used in SORP 2005 do not help this, and the SORP 2015 is no better.

In particular, there is huge interest by policymakers in the levels of government/public sector funding going into charities, and researchers spend a great deal of time trying to unpick charity accounts to work this out, but unless a charity provides very detailed notes to each line of the SOFA it is almost impossible. Government funding can take the form of grants, performance related grants or contracts and can therefore be potentially included on any income line of the SOFA. It is often much easier with a charity below the audit threshold which elects to adopt natural classifications as both SORP 2005 and SORP 2015 permit.

However, where the (normal) functional headings on the SOFA are used, we suggest the SORP needs to be much stronger about *requiring notes to explain the principle sources of income*. Whilst there is a general requirement in the TAR to explain the sources of funding (para 1.48) there does not seem to be a clear requirement for these to be quantified in the accounts. Much of SORP 2015 appears to be concerned with accounting principles – which we recognise are important – but this can be at the expense of explicit statements of factual disclosures. This does not seem to be addressed explicitly in any of the SORP modules regarding income.

We suggest below how changes to the wording of the SORP could address this.

- 4.9 On the expenditure side of the SOFA we feel the current (SORP 2005) categories of fundraising costs / charitable activities / governance costs is well understood and should not be changed (except for relaxing the need to breakdown the fundraising costs). Removing governance costs will just create confusion.

5. Comments on Specific Consultation Questions

We are only responding to certain questions. All answers should be considered in the light of the general comments above.

Q1-Q4. We welcome all changes that will improve users' understanding and hence the consistency of accounts prepared.

Q5-Q7. Narrative analysis of the TAR is important for some research. We do not have any major concerns with the proposals, but we are a little anxious that by allowing vital constitutional information to be left to the end of the TAR, it may end up being omitted by some charities.

Q8. We have significant concerns regarding changes to the SOFA layout, for the reasons explained above. As noted, long term consistency of SOFA headings is vital for meaningful research using charity accounts (and for many other users).

Nevertheless we recognise that there was a good deal of ambiguity in the use of the SORP 2005 headings, and the simplification in SORP 2005 is generally to be welcomed. What is proposed in SORP 2015 seems closer to SORP 2000 with its clear distinction between

- grant income (excluding performance-related grants) which should all now appear under "Donations" and
- contract income (plus performance-related grant income) which should now appear under "Earned from charitable activities".

But we must see an end to changes of this kind with every SORP.

However, what is missing is more analysis of the *sources of income*. There is great interest in distinguishing charitable income from (a) individuals (b) public sector (c) other sources – but this cannot normally be deduced from the face of the SOFA. We would like to see a much stronger emphasis on the need to provide this information at least in the notes to the accounts.

We suggest this could be added to para 4.42 to make this explicit. We suggest adding before or after the bullets:

For each SoFA analysis heading the notes should clearly disclosure of all material sources of at least in terms of major funding categories such as: government/public sector sources; businesses; individuals; other charities; lottery distributors, etc. The language and categories of these disclosures should correspond to the disclosure of principal funding sources in the trustees' report (see para 1.48).

As explained above, we do *not* support the removal of governance costs as a separate line on the expenditure side of the SOFA.

So, in summary, we support the following headings:

Income and endowments

- Donated income
- Fundraising trading income
- Investment income
- Earned from charitable activities
- Other income
- Total incoming resources

Expenditure

- Cost of generating funds
- Charitable activities
- Governance costs
- Other expenditure
- Total expenditure

Q9. We strongly support retention of the columnar SOFA. The distinction between the different classes of funds is fundamental.

Q10. No comment.

Q11. We would very much prefer to see lists of grants disclosed in the accounts themselves rather than in a separate document – obtaining additional documents is always problematic for researchers as it introduces delays and complications. Details of the grants made are a fundamental feature of a grant-making charity and need to be disclosed with the accounts.

Q12. In general we welcome the maximum disclosure of salary information.

Q13-14. No comment.

Q15-16. We recognise that linking the new SORP to both FRS102 and the FRSSE is fundamentally problematic. If it were possible to require all charities to apply FRS102, this would be more attractive in terms of allowing consistent use of charity accounts.

However, little would be achieved if smaller charities found it impossible to apply FRS102 effectively, and ended up ignoring large sections of the SORP. We recognise that a balance has to be struck between consistency of reporting and making it not too onerous for smaller charities to comply.

Q17-20. No comment.

Q21. Yes, all incoming grants should be treated consistently. A different treatment for government grants would be very problematic.

Q22-25. No comment.