

Invitation to Comment on Exposure Draft Charities SORP

Do you consent to personal data you provide being held, in accordance with UK GDPR and the Privacy Policy of the Charities SORP making body and its delegated parties? If you select 'no' your name and email address will not be stored, but your organisational data (if relevant) and all consultation responses will be collected.

Yes

Name:

Jay Kennedy

Email address:

[REDACTED]

Role (for example, Chair, Trustee, Accountant, Treasurer etc):

Director of Policy and Research

Are you happy for the SORP-making body to contact you if needed to discuss your responses?

Yes

Do you want your response to be treated confidentially by the SORP-making body and not published?

No

Are you responding:

On behalf of an organisation/body

Responding on behalf of an organisation/body

If responding on behalf of an organisation or body, please provide its name :

Directory of Social Change

Please select what best describes the organisation:

A charity applying FRS 102 and the Charities SORP

A sector body

Other (please specify):

A charity which provides information and training to other charities, including on finance, law and governance

A charity applying FRS 102 and the Charities SORP

What was the last reported gross income as set out in the charity's last annual accounts?

£1M - £5M

A user of accounts prepared under FRS 102 and the Charities SORP

In which capacity were you using accounts prepared under FRS102 and the Charities SORP?

No Response

An accounting firm / auditor

How many charity clients do you supply your services to?

No Response

An accounting firm providing independent examination services to charities

How many charity clients do you supply your service to?

No Response

A sector body

How many member charities does your organisation have?

Don't know

Responding as an individual

Which of the following describes you?

No Response

Question 1: Do you support the move to three tiers?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

DSC supports the introduction of a tiered approach in the new SORP to enhance proportionality, and we appreciate the SORP-making body's efforts to lessen the regulatory burden on smaller organisations. However, there is a need to adjust the income levels for the tiers and an additional tier might be needed to get the best balance.

Question 2: Do you consider that the proposed thresholds have been set at an appropriate monetary level in order to support a proportionate approach to reporting?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

The levels and structure of the tiers need substantial adjustment and improvement. The SORP-making body should rethink the income range for Tier 2, and potentially the starting point for Tier 2. Another tier might need to be added to get the right balance. An income range of £500,000 to £15m for the Tier 2 requirements encompasses far too much difference in the likely capacity, complexity and risk levels of the charities within it.

Insofar as possible, the tiers also need to be aligned with other proposed changes to thresholds in charity law recently under consultation. There is little sense in, for example, moving the audit threshold to £1.5m to account for the effects of inflation, whilst introducing Tier 2 to commence after £500,000. Aligning those thresholds at higher levels of income might also mitigate some of the negative impacts of introducing substantial and additional reporting requirements on the trustees of smaller charities at short notice.

Question 3: Do you agree that the Exposure Draft SORP clearly sets out the proposed reporting requirements for each tier?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

Some of the language is unlikely to work for many kinds of charities. For example, the exposure draft says that for the impact reporting of Tier 2 and 3 charities, they "must explain the impact the charity is making and must consider the long-term effect of its activities on individual beneficiaries and on society as a whole."

The language about beneficiaries is entirely appropriate but the phrase 'society as a whole' is largely meaningless. In what way? Why? How? For whose benefit? The public benefit of a charity is at the heart of how charities are constitutionally organised and regulated. But public benefit doesn't necessarily equate to making a difference to 'society as a whole'.

The exposure draft rightly notes that a charity's impact needs to be clearly related to its objects and its public benefit. But what's the impact of a church? For whom? There might be all kinds of beneficial impacts, for example feeding people in poverty, providing opportunities for social connection etc. But the core charitable purpose is about practising religion. Apart from numbers of parishioners or time spent being together in the church, there aren't likely to be many sensible measures, and reporting expectations would need to reflect these limitations for many diverse types of charities.

Question 4: Do you agree that charities within the largest income threshold should be referred to as 'tier 3' charities, or should they be referred to as 'tier 1' charities?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

Whichever way the tiering is described, it needs to be consistent.

Question 5: Do you have any additional comments in relation to the proposed tiered reporting structure in the Exposure Draft SORP?

DSC agrees with the tiered approach for the reasons of proportionality. However the timeframe for introducing these changes is insufficient to allow charity boards to adequately prepare. The SORP-making body should move forward the implementation of the enhanced reporting requirements on sustainability and impact to commence from January 2027. These are not simple questions for trustees to answer and too much change is being introduced without adequate notice. In our understanding these new reporting requirements aren't mandated by FRS 102, they come from the SORP-making body, so this should be possible.

Question 6: Do you agree that including prompt questions will help trustees to develop their Trustees' Annual Report?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

As a general principle, including prompt questions should help trustees, as long as these are succinct and guide the preparer to provide the right type and level of information. However, it's not clear to us from the wording of Question 6 which specific questions or prompts are being asked about here, or whether it's about the whole module. Is this talking about all 10 pages of Module 1 which includes many different bulleted points as well as questions? Or is this more specifically about the questions laid out in points 1.25 and 1.28?

Question 7: Do you consider the requirements for impact reporting for each tier to be proportionate?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

See our response to Question 3. Based on the current tiering, we don't believe it is proportionate. Requiring a charity of £500,001 annual income, whose reach will often be within a local community, to report its "long-term effects on society as a whole" doesn't seem proportionate or necessary.

Question 8: Do you consider the requirements for sustainability reporting for each tier to be proportionate?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

In terms of financial size the sustainability reporting requirements are not proportionate with what is required of the private sector. DSC's understanding is that ESG reporting requirements largely begin with companies that have over 250 employees and tens of millions in turnover or assets. However, the turnover and staffing of most charities is the equivalent of Small and Medium-sized Entities (SMEs) which are exempt from such reporting requirements, and more specifically 'Small' or 'Micro' SMEs. They are like small shops or small local businesses in terms of their financial size and environmental impact, not multinational corporations with vast carbon footprints.

The exposure draft notes that the public have higher expectations of charity transparency. But it's already the case that charity reports and accounts offer far more information to the reader than for a company of equivalent size. While it may be a good and necessary thing for trustees to think about their charity's sustainability and act accordingly, in most cases it will be ancillary to their charitable purpose. For most organisations this risks becoming a box-ticking exercise which adds cost but delivers little value in transparency terms.

The SORP-making body should scrap the sustainability reporting requirement for all but the largest charities, and align Tier 3 (or whatever the highest tier is going to be) with the thresholds that exist for businesses in the UK – for example as part of the development of the UK Sustainability Reporting Standards.

Question 9: Do you consider the disclosures for volunteers to be proportionate?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

The proposed disclosures are proportionate and this information is also very important for charities to communicate. The contribution of volunteers in the charity sector, including that of voluntary trustees, is fundamental to how it operates and to the value charities bring to society. Hence requiring trustees to report on the role of volunteers is appropriate to the group of organisations being regulated. It is right not to mandate any financial calculations of the value because of the methodological pitfalls but to allow charities to communicate what their volunteers bring in their own way.

Question 10: Do you consider the explanation of reserves in the glossary helpful?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

Generally yes, but it seems odd that the description doesn't seem to mention the words 'cash' or 'liquidity' in the examples. Perhaps this is because it needs to reflect official accounting or FRS language, but it might help illustrate the different types of reserves for the layperson. Especially because the lack of cash or of accessible liquid reserves are often crucial questions in terms of a charity's solvency, going concern, ability to access finance or maintain bank accounts, and so on.

Question 11: Do you consider the disclosures for reserves are proportionate?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 12: Do you consider the requirement for tier 1 charities to provide a summary of their plans for the future is proportionate?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 13: Do you consider that the additional disclosure will help to explain the treatment of legacies in the accounts?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 14: Do you have any other comments on module 1 and the proposals for the Trustees' Annual Report?

With the best of intentions, unless the tiers are substantially adjusted as we have proposed above, DSC believes that the proposed reporting requirements on impact and sustainability could add to the regulatory burden on trustees without a demonstrable or proportionate benefit in terms of transparency and public trust. In the absence of clear guidance about what these things mean, examples of what good practice looks like, and accessible help for trustees, they risk becoming box-ticking exercises which do little to enhance transparency.

Question 15: Is the example table helpful?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 16: Do you have any other comments on module 4?

No

Question 17: Does the module explain the relevant requirements of the five-step model in FRS 102 in a clear and understandable way?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 18: Do you find the module easy to navigate as drafted?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 19: Do you consider that the guidance on exchange and non-exchange transactions should be set out in separate modules of the SORP rather than separate sections of the same module?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 20: In the Exposure Draft SORP, all the disclosure requirements are listed at the end of the module. Would it be clearer instead to set out the relevant disclosures at the end of each section within the module?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 21: Do you consider this clarification a helpful addition to the SORP?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 22: Does the module set out the accounting requirements for legacy income clearly?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 23: Accounting for legacies can be a complex area for charities to navigate. Is there a need for further guidance on this topic outside of the SORP?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 24: Do you have any other comments on module 5?

No

Question 25: Do you find the module easy to navigate as drafted?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 26: Does the module explain the relevant requirements of FRS 102 in a clear and understandable way? Please select all options that apply.

No - do not understand a specific section

No - do not understand recognition exemptions

No - do not understand disclosure requirements

No - do not understand time value of money (free text box will be provided for more information to be added)

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 27: Does the section (paragraphs 10B.68 to 10B.84) on arrangements that are significantly below market value provide clarity on how to account for such arrangements?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 28: Are the additional disclosure requirements set out in paragraphs 10B.95 and 10B.129 reasonable for charities with such arrangements?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 29 - please provide any other comments you have on module 10B:

This section is nearly impossible to understand for the layperson – which describes the vast majority of trustees without an accounting or financial background. In the absence of a simplified summary of what the changes to lease accounting are, why they are being brought in, and how charities are likely to be affected, trustees will be reliant on auditors or independent advisors to recommend the best course of action for their charity.

Question 30: Do you agree with the proposal in the Exposure Draft SORP that only tier 1 and tier 2 charities, that do not meet the small entity threshold, and all tier 3 charities are required to prepare a statement of cash flows?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 31: Do you have any other comments on module 14?

As we noted in our response to Question 10, cash flow is critically important in terms of management accounting, but can fluctuate very quickly. The usefulness of its representation in a charity's annual report and accounts therefore will be limited because this only provides a snapshot in time, or at best a forecast, which is just a prediction that could easily change. That point in time or forecast may not represent the charity's long-term viability or necessarily indicate its overall financial health to the reader. Much depends also on the type of income the charity receives, how dependable it is, and how diversified it is. It is important to recognise that any statement of the charity's cash position in the accounts cannot be relied upon on its own as a guarantee of the charity's financial health.

Question 32: Do you agree that the additional disclosures are helpful?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 33: Do you agree that the additional disclosures are proportionate?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 34: Do you have any other comments on module 20?

No Response

Question 35: Do you agree with the new approach to using the generic term 'social investments' instead of referring to 'programme related' and 'mixed motive' investments?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

It is probably best to rationalise these terms, but there might need to be a subsequent process to review related guidance and align terms with what is used in the new SORP.

Question 36: Do you agree that the simplification of how gains and losses on social investments are reported is beneficial?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 37: Is the Exposure Draft SORP clear on the requirements for comparative figures and disclosures?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 38: Do you think there is a need for further guidance on the treatment of comparative figures and disclosures in this area?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 39: Do you have any other comments on module 21?

No Response

Question 40: Do you agree that the drafting, structure and proposals in the Exposure Draft SORP support the needs of smaller charities whilst addressing the needs of users of charity reports and accounts?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

While the tiered approach reflects a welcome improvement in terms of proportionality, the tiers as currently constructed do not sufficiently support the needs of smaller charities in key areas, particularly related to impact and sustainability reporting, which we have outlined above. There is a risk that increasing the amount and complexity of reporting requirements makes charity trustees ever-more reliant on external professional help which puts the smallest organisations at a disadvantage.

The SORP-making body should introduce a streamlined, plain English version of the SORP for the smallest charities which are largely volunteer-run and led and have few or no paid staff. The proposed requirements of Tier 1 are disproportionately burdensome for applicable charities below the suggested threshold. This version would contain only the most essential requirements, with links and advice about where to get further help and guidance.

Question 41: Do you agree with the SORP-making body's decision to continue to disallow the application of Section 1A?

Do not understand the position enough to comment

Please provide reasons for your answer or suggestions on how you think Section 1A could be applied differently: (250 word limit applies)

We're not able to comment on why disallowing application of Section 1A is a good or bad idea, or how it could be applied differently.

Question 42: Do you have any other comments on the Exposure Draft SORP?

Even recognising the new proportionate approach and the fact that the smallest charities won't necessarily have to apply the SORP, the exposure draft is skewed towards the capacities and perspectives of larger professionally-resourced charities who will have access to professional help. The consultation feedback will also likely be skewed towards the perspectives of those types of charities which have the capacity and knowledge to be able to respond. Therefore there is a risk that the final version of the SORP won't sufficiently accommodate the operational realities of the vast majority of UK charities which have few staff and rely on volunteers, and for which any increased cost in producing their annual reports and accounts will have a disproportionate impact

With the best of intentions, the proposed reporting requirements on impact and sustainability could add to the regulatory burden on trustees without a demonstrable or proportionate benefit. In the absence of clear guidance about what these things mean, examples of what good practice looks like, and accessible help for trustees, they risk becoming box ticking exercises that don't enhance transparency. Where will that guidance, good practice and help come from, especially at such short notice, and who will pay for it?

To make the introduction of the new SORP a success, and to provide a proportionate approach that adequately considers the needs of smaller charities, DSC proposes these recommendations to the SORP-making body:

- Move forward the implementation date for the enhanced reporting requirements on sustainability and impact to commence from January 2027, because of the short time frame.
- In the absence of a delay, regulators should allow an additional grace period of e.g. two months for filing of 2024/25 reports and accounts before they are labelled 'late' in red in public registers of charities.
- Place impact reporting clearly in the context of the public benefit requirement. Any impact reporting should flow from and be in the context of charity law and charitable status, and be clearly linked to the charity's public benefit rather than requiring additional (and expensive) methodologies that aren't related to charity governance.
- Scrap the sustainability reporting requirement for all but the largest charities, and align the Tier 3 threshold with ESG reporting requirements for UK businesses.
- Rethink the income range between the start of Tier 1 and Tier 2, and potentially the starting point for Tier 2. An income range of £500,000 to £15m for the Tier 2 requirements encompasses far too much difference in the complexity and risk levels of charities within it. Align the tiers with other proposed changes to thresholds in charity law recently under consultation.
- Introduce a streamlined, plain English version of the SORP for the smallest charities which are largely volunteer-run and led and have few or no paid staff.