

# Minutes

**Board** Charities SORP Committee

**Date** 28 September 2021

**Time** 13:30 – 14:45

**Venue** Microsoft Teams

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Joint Chair	Laura Anderson Nigel Davies Rossa Keown	<i>Office of the Scottish Charity Regulator (OSCR)</i> <i>Charity Commission for England and Wales (CCEW)</i> <i>Charity Commission for Northern Ireland (CCNI)</i>
Members present	Michael Brougham Daniel Chan Tony Clarke* Diarmaid Ó Corrbuí Tom Connaughton Gareth Hughes Noel Hyndman Joanna Pittman Carol Rudge* Max Rutherford Neal Trup	<i>Independent Examiner</i> <i>PwC</i> <i>Clarke &amp; Co Accountants</i> <i>Carmichael Centre for Voluntary Groups</i> <i>The Rehab Group</i> <i>Diocese of Down and Connor</i> <i>Queen's University Belfast</i> <i>Sayer Vincent</i> <i>HW Fisher</i> <i>Association of Charitable Foundations</i> <i>Neal Howard Limited</i>
In attendance	Alison Bonathan Gillian McKay Sarah Sheen	<i>CIPFA, Secretariat to the SORP Committee</i> <i>CIPFA, Secretariat to the SORP Committee</i> <i>CIPFA, Secretariat to the SORP Committee</i>

Observers	Jane O'Doherty	<i>Financial Reporting Council (FRC)</i>
	Jelena Griscenko	<i>The Charities Regulator in Ireland</i>
	Claire Morrison	<i>Office of the Scottish Charity Regulator (OSCR)</i>
	Amie Woods	<i>Charity Commission for England and Wales (CCEW)</i>
Apologies	Caron Bradshaw	<i>Charity Finance Group</i>
	Tim Hencher	<i>Scottish Council for Voluntary Organisations</i>
	Jenny Simpson	<i>Wylie and Bisset LLP</i>

\*Tony Clarke joined the meeting at 13:45. Carol Rudge joined the meeting at 14:00.

- |            |   | <b>Action</b> |
|------------|---|---------------|
| <b>1.</b>  | <b>Welcome, apologies for absences and declarations of interest</b>   |               |
| 1.1        | The Chair welcomed SORP Committee Members to the meeting.   |               |
| <b>1.2</b> | <b>Declarations of interest</b>   |               |
| 1.3        | The Chair noted two standing declarations of interest:<br><br>Sarah Sheen has worked substantially for CIPFA on the IFR4NPO project and is secretariat to the CIPFA Charities and Public Benefit Entities Faculty Board.<br><br>Daniel Chan sits on the CIPFA Charities and Public Benefit Entities Board   |               |
| <b>2.</b>  | <b>Minutes of the Meeting of 9 September 2021</b>   |               |
| 2.1        | The Chair reminded the Committee of the importance of the minutes as they will be referred to at drafting stage. Committee Members were therefore encouraged to reflect on whether the meeting minutes accurately captured the spirit of the discussions that took place during the meeting.<br><br>The minutes of the meeting were accepted as an accurate record. |               |
| 2.2        | <b>Matters arising</b>  |               |
| 2.3        | There were no matters arising from the minutes of the meeting held on 9 September 2021.   |               |
| <b>3.</b>  | <b>Paper 2: Possible approaches to the treatment of donated goods/services</b>  |               |
| 3.1        | Before Paper 2 was introduced, the Chair noted that although Paper 2 contains suggested discussion points, Committee Members should not feel constrained by this. The discussion points in Paper 2 should be seen as prompts. Committee Members   |               |

were reminded they are welcome to raise any points relevant to the treatment of donated goods/services in this discussion.

The Chair noted that where Committee Members are asked to make a case for change if proposing changes to the SORP, this is not intended to create a high barrier to change. Where the SORP is not the best fit, consideration can be given to changing the SORP. Further, a second submission can be made to the FRC if the proposals for change were such that it was necessary. Committee Members should not see the requirements of FRS 102 as preventing them from suggesting change to the SORP.

### 3.2 Paper 2 was introduced by the Chair.

It was noted that the topic of accounting for donated goods and services has been considered by the Charities SORP Committee before, therefore it would be very helpful if the issues can be resolved.

Feedback reports were received from six of the seven Engagement Strands. For reasons beyond the control of the Engagement Strand, the Major Funders and Donors and Government and Public Bodies Engagement Strand (MFDGPB) was unable to submit a report following their discussions of the matter. The Chair therefore noted that verbal updates would be invited from the SORP Committee Member who is also a member of MFDGPB as discussions of Paper 2 progressed.

The Chair introduced Paper 2 by dividing the topic into five key components, noting that the subsequent discussion would be structured in the same way (with the option to discuss other relevant issues as required).

- **Donated goods for resale.** The Chair noted that the Smaller Charities and Independent Examiners Engagement Strand fed back that an exemption from the accounting requirements for as many charities as possible would be beneficial. Professional and Technical Engagement Strand (B) expressed a preference for recognition of donated goods/services at the point of resale rather than receipt.
- **Donated goods for onward distribution.** Feedback was similar to that received with respect to donated goods for resale.
- **Donated fixed assets.** The Chair noted that feedback from engagement strands was relatively accepting of the current position. Some feedback noted the potential for the creation of inconsistencies. For example, if the treatment of donated goods for resale and/or donated goods for onward distribution is changed to allow recognition at the point of resale or distribution, this would be inconsistent with the recognition of donations of fixed assets on receipt.
- **Donated services and facilities.** The Chair noted that there was support for change in this area from three strands - Trustees, Smaller Charities and Independent Examiners and Professional and Technical Engagement Strand (B). Feedback from engagement strands also cautioned of the need to be aware of unintended consequences, for example, recognition of donated services/facilities leading to the charity requiring an audit.

- **Volunteer time.** Feedback from engagement strands showed no support for including a monetary value for volunteer time in the accounts. The Academics and Regulators and Proxies for the Public Interest Engagement Strand suggested that the number of volunteers could be included in the Trustees' Annual Report. The narrative to the accounts was seen as a more important method for communication about volunteers than valuation and inclusion of volunteer time in the accounts.

The Chair invited comments on the treatment of donated goods and services.

### 3.3 **SORP Committee discussion of Paper 2**

3.4 A Committee Member provided a verbal update from MFDGPB engagement strand.

The MFDGPB engagement strand was of the view that donated properties should be recognised, as they are more relevant to a charity's financial position. The engagement strand agreed with other engagement strands that donated goods for resale should be recognised on resale, rather than on receipt.

The Chair noted that consensus from the engagement strands and considered that this appeared to necessitate change to the SORP, which will require a second submission to the FRC as a part of its Periodic Review.

### 3.5 **SORP Committee discussion – donated goods for resale**

3.6 Committee Members indicated agreement with the proposals that donated goods for resale should be recognised at the point of resale rather than the point of receipt. Two committee members agreed that such a change would be unlikely to lead to change in practice.

3.7 One Committee Member noted the example of the donation of Ferraris to the RNLI. *(For context, the Secretariat notes that the RNLI was bequeathed two Ferraris which it sold for £8.5m in 2015).* The Chair agreed that the donation of Ferraris to the RNLI would likely be classed as a donation of goods for resale. The Committee Member commented that this example shows that a charity could be donated an item that materially affects the financial statements. Should the item be held from one accounting period to the next, that presentation of the financial statements might not appropriately reflect gains in the correct period if income from donated goods is only recognised at the point of resale.

In response to this point, a Committee Member suggested that the SORP could include a threshold below which donated goods for resale would be recognised on resale, but above which donated goods for resale would be recognised on receipt. Noting that most items donated to charity for resale are low in value, the Committee Member suggested that if the threshold was set at a reasonably high level, most of the items donated to charity for resale would be below the threshold. Accounting for donated goods on receipt would therefore only be relevant in limited circumstances. One Committee Member noted that a principles-based approach based on materiality would be preferable to the inclusion of a monetary value as a threshold in the SORP.

3.8 Noting the suggestion to allow recognition on resale for items below a threshold value, while still requiring recognition on receipt for items above this value, the Chair

sought agreement that the suggestion provides a good compromise. The SORP Committee was in broad agreement.

The Chair closed the discussion of treatment of donated goods and services for resale by concluding that the SORP Committee supports recognition on resale for items below a threshold value, while requiring recognition on receipt for items above this value.

A change to the SORP to allow recognition on resale would require a second submission to the FRC.

Chair

### 3.9 **SORP Committee discussion – donated goods for onward distribution**

3.10 It was noted that the issue of treatment of donated goods for onward distribution is commonly faced by foodbanks. In particular, foodbanks exist to distribute donations of food. It is not the 'business model' of a foodbank to buy food for redistribution. It was later noted that the same is true of other charities, for example, NGOs that distribute donated medicine.

The Chair further noted that the substance of donated goods is different for profit-making entities than it is for charities. For example, donated goods could increase distributable reserves in a profit-making entity; this would not be the same for a charity.

One Committee Member commented on the difficulty that the substance of donated goods for onward distribution creates. In order to uphold consistency, donations that save a cost to charities should be recognised. It is sensible to recognise the donation of goods if the donation saves the charity from buying the goods for itself. However, if the charity would not otherwise buy the goods for itself, it is difficult to value the donation. Income could be deemed as being inflated if a notional amount is recognised for donated goods received for onward distribution. The Committee Member suggested that the principles in the SORP are appropriate. Improvements could be made by adding clarity to the SORP.

One Committee Member noted that this issue is similar to the issue of recognition of volunteer time; the SORP is explicit on the treatment of volunteer time. Donated goods for redistribution should similarly be covered in the Trustees' Annual Report, in which the importance to the charity of donated goods for distribution should be properly reported.

A second Committee Member agreed that parallels could be drawn to volunteer time. The Committee Member reflected on the substance of goods donated for onward distribution, noting that the goods are not a valuable resource to the charity. Rather, the charity acts as a conduit for the donated goods. The Committee Member agreed that goods donated for onward distribution should be discussed in the Trustees' Annual Report rather than valued and recorded as income in the SoFA.

3.11 The Chair commented that the description of charities as 'conduits' of goods donated for onward distribution was helpful. The description helps to clarify the substance of the transactions. The charities would not look acquire such goods for distribution; rather the charities are seeking donations of goods themselves. In this way, the substance differs between charities and for-profit entities in receipt of donated goods.

A change to FRS 102 would be needed to allow changes to the SORP in this respect. A second submission to the FRC will therefore be required to request consideration of non-recognition of donated goods for onward distribution.

Chair

3.12 **SORP Committee discussion – donated fixed assets**

3.13 The Chair noted that no proposals for change had been received in the feedback from engagement strands. No proposals for change were put forward by Committee Members.

The Chair therefore concluded that the SORP should remain unchanged with respect to donated fixed assets.

3.14 **SORP Committee discussion – donated services and facilities**

3.15 One Committee Member suggested that the SORP should be changed to remove the need to recognise donated services and facilities, even for material donations. Instead, charities should only be required to disclose donations of services and facilities. Disclosures should refer to the value of donations where this is material. The Committee Member suggested this change is justifiable to avoid unintended consequences, for example, the audit threshold being surpassed.

The Chair noted that such a change would require a change to FRS 102. The Chair suggested it may be preferable for charities to recognise donated services and facilities where practicable. That is, if there is a market for the service/facility, the charity should value and recognise the donation. Otherwise, the charity should not.

Further support was shown for changing the SORP to allow disclosure, rather than recognition, of donated services and facilities. A Committee Member put forward the example of a charity being provided with free internet advertising. The charity had been asked to record this donation at market value. However, the charity would not have paid a similar amount for advertising services if paying for advertising themselves. The Committee Member believed that disclosure, rather than recognition, would be preferable in this situation. Income from large donations of services and facilities can create questions from funders on what appear to be anomalies in the accounts.

However, support for change to the SORP was not the consensus. One Committee Member supported the current SORP requirements. The Committee Member commented that in the example of pressure from a donor for a charity to record internet advertising at market value, the issue is with the donor requesting specialist measurement, not with the SORP. The Committee Member noted that the SORP is clear that donated services and facilities should be recorded at the fair value of the donation **to the charity**. The Committee Member supported the current SORP requirements, in that charities are required to record receipt of a service/facility that they would otherwise have to pay for. This is acceptable even if it does lead to the charity requiring an audit, as the charity is recognising a resource they were in receipt of. Issues being faced by charities can be addressed by adding clarity in the SORP that donated services/facilities should be recognised at their value **to the charity**.

Committee members expressed agreement with this view. One Committee Member noted practical issues with the valuation of donated services and facilities.

Specifically, in situations where a charity receives a donation of services or facilities that the charity would otherwise not buy for itself, the value of the donation to the charity is arguably nil suggesting that the donation would not be recognised. However, this may create difficulties when the accounts are audited as the charity would need to demonstrate that there was no intention to buy the donated service/facility had it not been donated. This point drew agreement, with a Committee Member noting that disclosure, rather than valuation and recognition, would be preferable in situations where the charity receives a donation of services/facilities that would not otherwise have been paid for. Disclosures would be useful for ensuring that the donor can see the donation is acknowledged.

The Chair noted that charities could create an argument for valuing a donating at a nominal or nil value, which would possibly lead to conversations with auditors to agree the approach to valuation. Consideration was then given to whether such treatment would require a change to FRS 102. Committee members did not believe a change is required to FRS 102 in this respect. FRS 102 and the SORP already allow charities to value donated services and facilities at the value to the charity. It was thought reasonable that this value could already be nil in situations where the charity would not otherwise buy the services/facilities and it could be clearly demonstrated that this was the case.

Rather, it was agreed that additional clarity within the SORP on application would address the issues discussed. This would be revisited at drafting stage.

3.16 **SORP Committee discussion – volunteer time**

3.17 The Chair noted that feedback from the engagement strands did not provide any evidence to support a change in the SORP with respect to volunteer time. However, the engagement strands did provide feedback in support of disclosing information about the number of volunteers in an organisation.

The SORP Committee agreed with this feedback. The Chair therefore concluded that this matter would be revisited at drafting stage.

3.18 **SORP Committee discussion – other issues arising from Paper 2**

3.19 The Chair noted that engagement strand feedback included several requests for additional examples and information sheets to help charities better apply the SORP requirements for donated goods and services. Further, the Chair noted that a lot of Engagement Strand feedback referred to materiality. The Chair invited views from the SORP Committee on whether anything could be done to support charities in these respects, including any steps that could be taken at drafting stage such as choice of language used in the SORP.

One Committee Member noted that several of the recent discussions on specific SORP sections have concluded that the SORP does not need to be changed, but that additional guidance would be useful. While the Committee Member is in favour of providing guidance to support charities, the Committee Member noted that the SORP could become unwieldy if all the guidance that has been requested were to be included in the SORP. The Committee Member questioned whether the guidance could be provided outside the main body of the SORP, for example as an appendix to the SORP.

The Chair confirmed that there was broad support for this approach from the rest of the SORP Committee. The Chair noted that a digital approach to the SORP would likely help in this respect.

The Secretariat noted the need for balance, suggesting that it would be useful to include guidance such as decision trees in appendices to the SORP. However, it will likely still be necessary to include guidance outside the SORP as information sheets even if appendices are created. A Committee Member responded that signposting would need to be revisited to ensure it is clear when the SORP can signpost users to information located outside the SORP.

The Chair thanked Committee Members for their helpful comments during the discussions of donated goods and services.

#### **4. Topics planned for November research meeting**

4.1 The Chair noted that the agenda for November's research meeting is now full. If SORP Committee Members have additional papers for circulation, they are welcome to send them to the Secretariat for circulation by email.

The agenda includes:

- A presentation from PwC
- A presentation from CCEW on smaller charities
- A presentation on academies
- Work from the Trustees Engagement Strand
- An Information Sheet on redeemable shares from the Co-operative Society, which may be something requiring consideration by the SORP Committee in the future.

As the agenda for the November meeting is full, the minutes of the October meeting will be agreed by email rather than in the November meeting.

#### **5. Any other business including future Committee meetings**

##### **5.1 Future meetings**

The Chair noted that sustainability reporting is quickly gaining traction. To ensure that the SORP Committee can stay ahead of any developments, the Chair has invited a representative from the Department of Business, Energy and Industrial Strategy (BEIS) to attend the January meeting. The BEIS representative will be able to provide some context about the developments in sustainability reporting in the corporate sector.

This welcome addition to the January meeting necessitates some changes to the SORP Committee's schedule.

The Joint Meeting with the Engagement Strand Convenors will be moved to February. The Chair will write to Engagement Strand Convenors to inform them of the revised schedule and apologise for any inconvenience.

Chair



To allow the SORP Committee to reflect on updates from BEIS before making decisions on sustainability reporting, the Chair suggested postponing discussions of, and decisions on, sustainability reporting from the January meeting in which sustainability reporting is currently scheduled to a later date. The Chair suggested it would be preferable to schedule an additional meeting in early 2022 to allow for discussions on sustainability reporting. The SORP Committee expressed agreement that such an important issue deserves proper consideration at an additional meeting as suggested. The Chair will liaise with the Secretariat to schedule an additional meeting for early 2022.

Chair/  
Secretariat

The Chair noted that the discussion of sustainability reporting is in the same space as discussions on charities making 'green' investments. This is linked to the 1992 Bishop of Oxford case.

5.2

**AOB**

The Secretariat reminded Committee Members of the practical arrangements for the Working Groups.

As the Joint Chairs do not attend Working Groups, the Chair thanked Committee Members for their contributions to the meeting and brought the formal part of the meeting to a close.