

## **Donated goods and services: feedback from engagement strands and SORP Committee working groups**

### **Annex 1 – summary of engagement strand responses**

#### **Academics, regulators and proxies for public interest (ARPP)**

- No strong feelings raised on the subject and did not consider a high priority in relation to other possible changes to the SORP
- For those that rely on income from charity shops (not household name charities that have a range of income sources) there is potential for distortion for an erroneous statement of the value of assets
- Difficult to measure donated goods with accuracy so the prudent approach is not to overstate
- Foodbanks highlighted as a class of charity where the reporting of goods as income could distort a true and fair view of their financial position due to the model that they operate
- There was some broad agreement that it might be good to quantify as a round sum, the number of volunteers involved in charities as part of the TAR
- One member of the strand expressed concern that if donations of buildings were accounted for on a financial basis and donations of other goods and services were recorded in the notes that this would undermine a true and fair view. The member suggested that clearer guidelines on materiality for donated goods and services were needed along with more examples and case studies to illustrate how charities should account for these donations and the consideration of a possible 'de-minimis' threshold for the recognition of such donations as income. That strand member also had a desire for greater linking between the notes and the TAR to allow the narrative to explain more about the contribution of donated goods and services to the achievement of the charity's purposes.

#### **Trustees (T)**

- In the first phase of the strand's work, the topic was considered and a recommendation was made that equal consideration should be given to the importance of reporting both non-financial and financial performance in the annual report and accounts
- Observations from the strand discussion on the topic were:
  - Comparing donated goods, services and professional services can be difficult and unhelpful
  - The current SORP deals with the issues very well and is pragmatic in its approach
  - There is a difference between donated goods intended for resale and those that are essential to the primary purpose of the charity (such as fixed assets). Only larger charities are likely to operate shops for the resale of donated goods
  - One strand member suggested that there should be some sort of recognition in the report and accounts that charities generally

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rely heavily on volunteer time and expertise. However the proposal to calculate a financial value of those efforts would be disproportionate and unhelpful

- Including a value for a professional service may mean that the charity meets the threshold for audit, thereby incurring a cost that it does not have the extra resources to fund
- The strand re-committed to some of its original recommendations at the end of the exploration phase that it felt were particularly relevant in relation to how the next SORP should be drafted – e.g. the use of Plain English, equal consideration to the importance of reporting both non-financial and financial performance and reducing length and complexity of the notes by better use of referencing and signposting
- In addition the strand suggested that:
  - the next SORP should encourage trustees and preparers to include a narrative explanation in the TAR as to the degree the charity relies on volunteers to deliver key activities
  - donated goods should only be valued in the accounts at the point of resale but major fixed assets should be valued at the point of receipt of the donation
  - an unintended consequence of adding ‘paper’ donations in the SoFA is that the charity could be pushed over the audit thresholds. The strand suggests considering removing the financial value of donated professional services as income for the avoidance of pushing the charity over the audit threshold

### **Larger charities (L)**

- There is an aspect of the work that charities do to leverage goodwill from society which includes leveraging donated goods and services. It is important to try to convey this in the accounts to demonstrate that you are doing well for the benefit of beneficiaries
- The strand recognised the issues with fair value. There was no consensus for recommending a change to how income from donated goods and services is recognised
- Volunteer time should not be entered as a donated service with a value in the SoFA – conveying its importance elsewhere, e.g. in the TAR is fine but not putting a value on it for accounting purposes
- The group discussed whether tiering could be applied in any way in relation to the requirement to include income but a strand member commented that this could be dangerous and confusing – i.e. if smaller charities were actually shown to be large due to the reliance on donated goods/services
- Materiality needs to be considered – time should not be wasted counting little things if it’s not the charity’s main activity, the notes can report more and things can be disclosed in other places to enhance the

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readability of accounts. An example was given about not recognising donated concert tickets of low value.

- A further point on materiality was made that whereas it made sense to exclude immaterial items, if a large part of a charity's business was made up of a large volume of small price-point items, in total these would be material

### **Smaller charities and independent examiners (SCIE)**

- The inclusion of non-financial transactions within the accounts is problematic and potentially confusing for the reader
- The strand discussed foodbanks where there may be a volunteer-led charity handling very large amounts of donated food for distribution to beneficiaries. In some cases and depending on the valuation method, the value of the donated goods may far outweigh the value of financial transactions and therefore could not be argued to be immaterial. Including or excluding such items may also have consequences in terms of pushing the charity over the audit threshold – some may argue this is disproportionate whilst others may view it as wholly appropriate
- The strand's recommendations were:
  - an exemption from the requirement to include donated goods and services in the accounts for as many charities as possible. It may be more acceptable if this is an option for charities with income below £100k or possibly £250k (this included some discussion regarding tiering levels)
  - where donated goods and services are shown in the accounts, this should be as transparent as possible – ideally in the SoFA but if not then in the primary notes that analyse income and expenditure
  - the possibility of standard values for donated goods and service should be considered where this is feasible or signposting to acceptable methods of valuation should as a nominal value for donated food per kg
- There is already inconsistency in the extent to which donated goods, services and time are recognising and shown in the accounts (with the obvious exclusion of a value for volunteer time) so arguing for the ability to exclude the valuation of donated goods and services may not be that damaging for the sector.

### **Professional and technical A (PTA)**

- Feedback supportive of the treatment in the SORP although recognised that it is often difficult for preparers of accounts to calculate a figure for such goods and services. Equally, it is difficult for users of accounts to know whether a figure for such services has been included.
- Materiality is crucial in ensuring there is less clutter in charity accounts so charities should only recognise material donated goods, services or facilities and this should be made clear in the SORP

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- There is a potential mismatch between accounting policies and treatment in trading subsidiaries and the charities if the SORP exempts the recognition of income from donated goods to a charity
- Noted that it is often assumed that donated assets are for resale but this is not always the case, citing the example of NHS Charities in 2020 receiving assets to be passed onto staff and patients. The SORP should be more explicit in recognising that assets may be donated to be used for charitable purposes

### **Professional and technical B (PTB)**

- Changes should be made to the SORP (due to the issues with reliable measurement and the costs outweighing the benefits) so that charities no longer have to measure and recognise:
  - donated goods for resale on receipt, with recognition of income required on the sale of the donation, or
  - donated services and facilities
- Consideration should be given as to whether the measurement difficulties in relation to goods for onward distribution can be overcome in a meaningful way and if not, charities should no longer be required to measure and recognise these on the basis of value to the charity.
- The strand had mixed views on the recognition of donated fixed assets again due to issues with reliable measurement in some cases and the resulting volatility in the accounts
- The text in the SORP regarding the Retail Gift Aid Scheme should be redrafted to ensure charities have a clear understanding of how to account for each element of income relating to sales under the Scheme
- In relation to charitable companies, the strand recommended that consideration be given to whether the Companies Act requirements on maintaining accounting records in relation to stock apply to donated 'stock'
- If the status quo is maintained in the SORP, the concept of 'value to the charity' should be reconsidered as it does not result in reliable measurement of donations in kind at present
- Charities should be required to make disclosures about the donations in kind they have received during the year, recognising the important contribution that such donations make to charities
- A similar approach to the disclosure of donations in kind should be taken as for disclosures about volunteers
- By requiring disclosures, donated goods for the charity's own use would also be covered which appears to be an existing gap in the SORP
- The strand noted that in their report on tiering, they had recommended that:

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- medium sized charities should have a note on donations in kind not recognised in the accounts
- medium and small charities should not be required to recognise donations in kind, with an implication that medium sized charities are given an accounting policy choice in the matter.

### **Working Group A (WGA)**

- Not clear that there is a case for change – donated goods and services are resources that the charity can use and should therefore be recognised
- Discussions were around the complexities and practicalities rather than the principles in the SORP which were agreed with
- The SORP could better justify the required treatment and contain more examples and guidance – e.g. on measurement to assist preparers
- Measurement was recognised as an issue – practical points, subjectivity, perspectives of funders who want generosity recognised but the charity wouldn't have necessarily spent the same amount of money
- Volunteer time – why is this not in the financial information? Seems like an arbitrary divide – when a professional donates time undertaking their profession, it is valued and recorded but if the same person offers time for cleaning the office it isn't recorded
- Any valuation of volunteer time would potentially create additional costs - what would be the benefit or gain in doing this?
- A place for different requirements via a tiered approach?
- Materiality is important

### **Working Group B (WGB)**

- The existing requirements are for donated services as income and expenditure in the SoFA – this would be better disclosed in the notes rather than in the SoFA
- No disagreement with the existing approach re donated goods – not valued until sold or valued at economic benefit
- No valuation of volunteer time should be in the SoFA. There should be reference in the TAR to the impact of volunteers and the impact they make