

25. Branches, linked or connected charities and joint arrangements

Introduction

25.1. The reporting tiers applied for module 25 are as specified in the table below.

Table 25.1A: Tiered reporting requirements for module 25

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| All tiers | The requirements for branches, linked or connected charities and joint arrangements in this module apply fully to all charities. |
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25.2. All charities that operate through branches must apply this module. This module also applies to charities when accounting for:

- special trusts and any other non-corporate entities which are administered by, or on behalf of, the reporting charity and whose funds are held for specific purposes which are within the general purposes of the reporting charity
- charities linked by the Charity Commission (England and Wales)
- charities that are connected (Scotland)
- joint venture activities through jointly controlled operations or through using jointly controlled assets that do not involve the establishment of a separate jointly controlled entity. Where a separate jointly controlled entity is established, charities should refer to the SORP Module 29 '*Accounting for Joint Ventures*' and Section 15 of FRS 102 '*Investments in Joint Ventures*' for further guidance

25.3. FRS 102 provides general accounting guidance on jointly controlled assets and jointly controlled operations in Section 15, but it does not specifically address the unique circumstances of charities, such as branches, special trusts, linked or connected charities, or shared operations or assets in a sector-specific context. This module supplements FRS 102 by reflecting current accounting practice and the requirements of charity law.

25.4. This module sets out:

- [What is meant by the term 'branch'?](#)
- [Accounting for branches](#)
- [When to apply branch accounting to other arrangements](#)
- [Branch accounting for special trusts \(England and Wales\) and similar arrangements](#)
- [Branch accounting for linked charities \(England and Wales\)](#)
- [Branch accounting for connected charities \(Scotland\)](#)

- [Accounting for joint arrangements involving other charities](#)

What is meant by the term 'branch'?

- 25.5. The term 'branch' is used in this SORP to describe a charity's administrative arrangements whereby its internal operating structure is arranged according to function, location or other factor designed to facilitate its administration.
- 25.6. Branches may include supporters' groups, members' groups, and offices in different countries, communities or parishes that are part of a charity. Branches are commonly used to organise fundraising, to represent the charity in a locality or to carry out the charity's work in a locality.
- 25.7. The indicators of a branch include the following:
- it uses the name of the reporting charity in its title
 - it raises funds exclusively for the reporting charity and/or its local activities
 - it uses the reporting charity's registration number on its letterheads, publicity and website
 - it uses the reporting charity's registration number to receive tax relief on its activities
 - it represents itself to the public as the reporting charity's local representative or its representative for a particular purpose
 - it receives support from the reporting charity through advice, publicity materials, fundraising, etc.
- 25.8. Excluded from the SORP definition of branches are:
- charities that are incorporated and have a legal personality separate from their directors/trustees and members, for example charities incorporated under the Companies Act, Co-operative and Community Benefit Societies (formerly known as Industrial and Provident Societies), Charitable Incorporated Organisations or companies established by statute or Royal Charter
 - groups of people who gather together to raise funds for a charity or a number of different charities
 - special-interest groups that are affiliated to a particular charity but do not themselves undertake charitable or fundraising activities for the charity
- 25.9. All the funds held by the branch will be the legal property of the reporting charity or under the direct control and management of the trustees of the reporting charity. This is the case whether or not a branch has a separate bank account.

Accounting for branches

- 25.10. A branch is an internal structure adopted by a charity to undertake its activities. All transactions undertaken through a branch must be accounted for gross in the reporting charity's own accounts. Similarly, the reporting charity's balance sheet must include all assets and liabilities of the branch when in aggregate these amounts are material. For example, the branch may hold funds at the reporting date that have been raised but not yet remitted to the head office of the reporting charity. When material, these funds must be included in the accounts of the reporting charity.
- 25.11. Funds raised by a branch for the general purposes of the charity will be accounted for by the reporting charity as unrestricted funds. Funds raised by a branch for specific purposes are accounted for as restricted funds of the charity.
- 25.12. Any branch accounts form part of the results reported in the accounts of the reporting charity. Individual memorandum branch accounts may be prepared covering only each branch in order to provide information for the benefit of local supporters and beneficiaries.

When to apply branch accounting to other arrangements

- 25.13. Branch accounting should also be adopted for certain other arrangements that are not subsidiaries, associates or jointly controlled entities, including:
- special trusts (in England and Wales) and similar arrangements
 - charities linked by the Charity Commission (England and Wales)
 - charities that are connected (Scotland)
 - joint venture activities that do not involve a jointly controlled entity being established

Branch accounting for special trusts (England and Wales) and similar arrangements

- 25.14. If a separate legal entity, which is not an incorporated charity, is administered by, or on behalf of, the reporting charity and its funds are held for specific purposes which are within the general purposes of the reporting charity, that entity may form part of the reporting charity for accounting purposes.
- 25.15. In England and Wales such arrangements will usually fall within the definition of a special trust set out in section 353(4) of the Charities Act 2011: 'property which is held and administered by or on behalf of a charity for any special purposes of the charity, and is so held and administered on separate trusts relating only to that property'.
- 25.16. A special trust may be a separate endowment fund, a restricted fund, for example a prize fund, or a specific piece of land or an item of property. A

special trust can be a separate non-company charity, but where this is the case it is usually listed as a component of the register entry for the reporting charity itself.

- 25.17. A special trust is not a separate reporting entity in charity law for the purposes of preparing and filing of a trustees' annual report and accounts. Instead, it is accounted for as a restricted fund in the accounts of the charity that is acting as trustee of the special trust.
- 25.18. A special trust is accounted for in a similar manner to a branch, but the accounts should separately identify the special trust(s) as a component of restricted funds.

Branch accounting for linked charities (England and Wales)

- 25.19. In England and Wales, the Charity Commission can link two or more charities using a direction made under section 12 of the Charities Act 2011. The effect is to link two or more charities for registration and accounting purposes, with the aim of simplifying the reporting arrangements. Linking can apply where the charities either have trustees in common or the charities have common purposes and are interdependent.
- 25.20. Branch accounting should be adopted for all linked charities that are not companies established under company law. If one or more of the linked charities is a company, company law requires that each prepares its own entity accounts. Consolidated accounts must be prepared by the parent charity if the combined income of the reporting charity and linked subsidiary-company charities exceeds the applicable threshold (see Appendix 3, 'Company law thresholds for the UK and the Republic of Ireland') or they have been linked for reporting purposes (section 12 of the Charities Act 2011) in which case a linked charitable company is treated as a subsidiary. Refer to the SORP module 24 '*Accounting for groups and the preparation of consolidated accounts*'.
- 25.21. Accounts prepared for linked charities on a branch basis combine (or aggregate) the funds held by each linked charity. However, the funds of each linked charity must be separately identifiable as they are not merged together. Each charity retains its own charitable purpose. The separate charities are reported in a manner that is similar to the presentation of restricted funds (refer to the SORP module 2 '*Fund accounting*' for the disclosures required for restricted funds).
- 25.22. Linked charities should be presented in the combined accounts by:
- including a separate column or columns in the statement of financial activities (SoFA) and the balance sheet for each linked charity
 - providing an analysis in the notes to the accounts differentiating the activities and funds held by each linked charity, including any restricted funds

Branch accounting for connected charities (Scotland)

- 25.23. In Scotland, two or more charities can be connected under Regulation 7 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Connected charities are those charities that have common or related charitable purposes or those that have common control or unity of administration. The connected charities may prepare a single set of accounts.
- 25.24. Where connected charities prepare a single set of accounts, they must include all of the information for each charity that would be required if each charity produced individual accounts. This may be achieved, for example, by including a separate column or columns in the SoFA and balance sheet.

Accounting for joint arrangements involving other charities

- 25.25. Joint arrangements can take many forms, and charities must consider the substance of the arrangement. Charities should make reference to any agreements to identify the charity's share of the income and expenditure, and assets and liabilities relating to the joint arrangement. Where a joint arrangement meets the definition of joint venture, charities should refer to Section 15 of FRS 102 'Investments in Joint Ventures'.
- 25.26. A joint venture is a specific form of joint arrangement. A joint venture is established by contractual agreement whereby two or more parties (the venturers) undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity. It exists only where the strategic financial and operating decisions relating to the activity require the unanimous consent of all of the parties sharing control.
- 25.27. A joint venturer of either a jointly controlled operation or jointly controlled assets, must include in its accounts its own charity's share of the income and expenditure relating to the joint venture activity. For jointly controlled assets, the charity must also include its share of the assets and liabilities in its accounts. For jointly controlled operations, each venturer accounts for the assets it directly controls and the liabilities it incurs. Where appropriate, the joint venture should be reported as a separate activity in the SoFA and notes to the accounts. However, if a jointly controlled entity is established, refer to the SORP module 29 '*Accounting for joint ventures*' for the accounting treatment to follow. Preparers should also refer to paragraphs 15.4 to 15.7 of FRS 102 for detailed requirements on jointly controlled operations and jointly controlled assets.