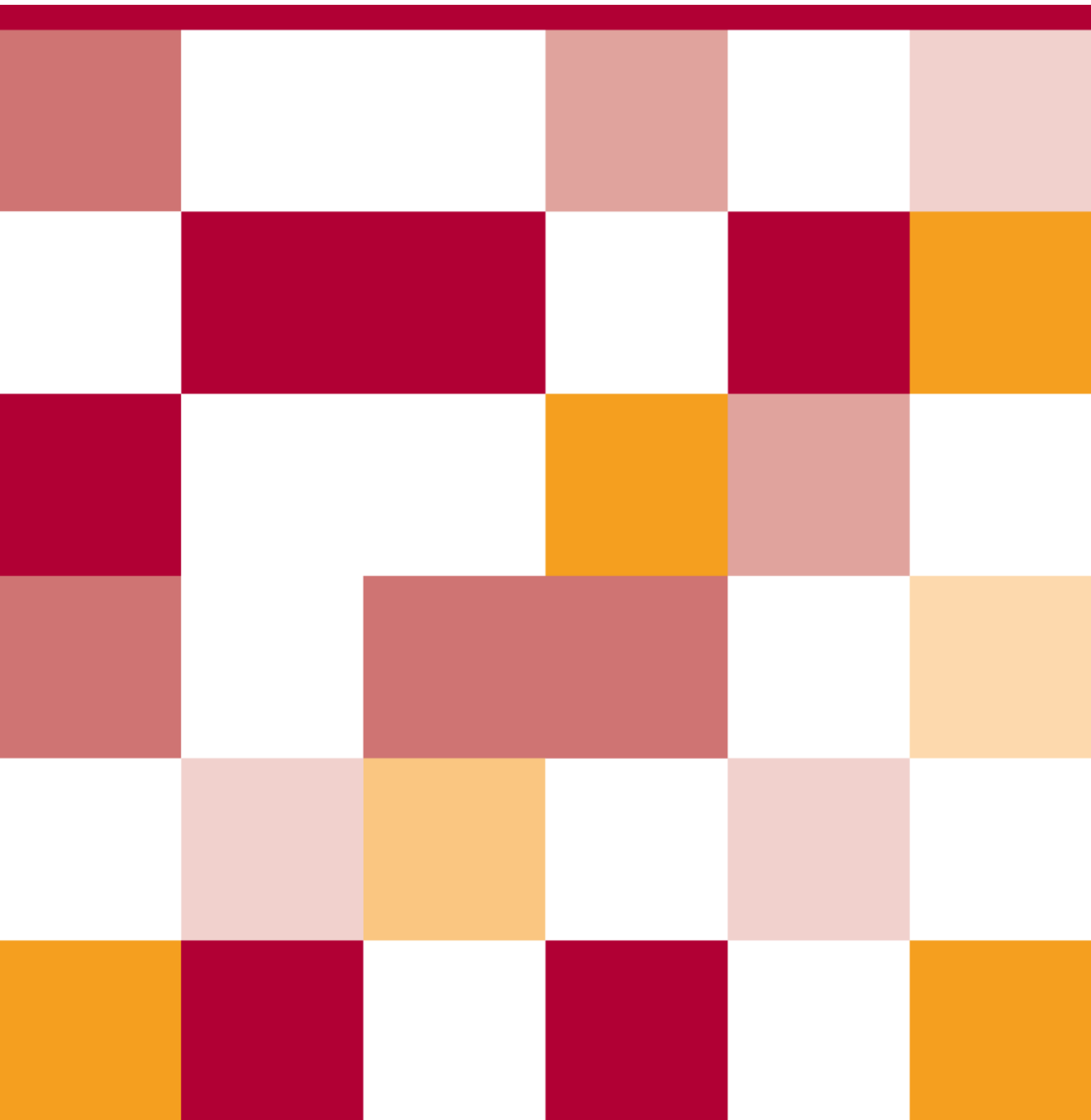




# **Charities Act 2006: Changes to the Accounting and Reporting Framework for charities**

Extract on reporting public benefit

June 2007



## **Introduction**

- 1.1.1 The Charities Act 2006 includes a number of changes relating to public benefit. Although these changes are not expected to come into force until early 2008, the Charity Commission has begun work on preparing guidance on the operation of the public benefit requirement. The Commission's consultation on draft public benefit guidance began on 7 March and ended on 6 June. The draft guidance explains what the public benefit requirement means and sets out some proposals on how the Commission thinks that charities should report on their charity's public benefit.
- 1.1.2 If the proposals relating to the reporting of public benefit are to become part of the legal requirements for charity reporting they must be included in regulations. This will be done by updating The Charities (Accounts and Reports) Regulations 2005. The changes relating to reporting public benefit form part of a package of changes following the Charities Act 2006. The Office of the Third Sector must consult on these changes before the new regulations can be considered by Parliament. The consultation began on 14 June 2007 and will end on 14 September 2007. It is proposed that the changes would come into force for financial years starting on or after 1 January 2008.
- 1.1.3 Because we think that a number of charities and those concerned about charities will be particularly interested in the proposals relating to the reporting of public benefit we have extracted the relevant paragraphs from the main consultation document and from the draft regulations and these are shown below.
- 1.1.4 We welcome your views on how public benefit should be reported. In particular we are interested in your views on the three questions from the consultation numbered 13, 14 and 15 in the extract below.

## **We want your views**

- 1.1.5 Responses to the proposals should be sent - by email if possible - to the address below. Please mark your responses "Charities Accounts and Reports - Consultation" in the e-mail subject line or on the envelope.

Helen Morgan  
Office of the Third Sector  
Cabinet Office  
35 Great Smith Street  
London SW1P 3BQ

Helen.morgan@cabinet-office.x.gsi.gov.uk

- 1.1.6 If you would like to read the Commission's consultation on its draft public benefit guidance it can be found on the Commission's website at: [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk). Although the Commission's consultation closed on 6 June the consultation will remain on its website until the agreed guidance is published.
- 1.1.7 If you would like to read the Office of the Third Sector's full consultation on changes to the accounting and auditing framework for charities it can be found on the office of the Third Sector's website. [www.cabinet-office/thirdsector](http://www.cabinet-office/thirdsector)

***Extract from Charities Act 2006: Changes to the Accounting and Auditing Framework – Consultation for charities in England and Wales***

**Trustees' annual reports – Public benefit**

- 3.29 The 2006 Act reinforces the requirement that all charities must have purposes which are for the public benefit and gives the Charity Commission a new objective to promote awareness and understanding of the public benefit requirement. The Act requires the Commission to publish guidance in support of that objective and requires charity trustees to have regard to that guidance when they exercise any powers or duties where the guidance is relevant.
- 3.30 The Commission also has the objective of enhancing the accountability of charities to donors, beneficiaries and the general public. Charity trustees already provide information in their annual reports which describes the activities and achievements of the charity and this should now be extended to include information about how the charity meets the public benefit requirement. Many charities are already starting to use their annual report to address the issue of how the charities purposes benefit the public.
- 3.31 It is recognised that there is a need to balance the desire for greater transparency and accountability by charities about the benefits they provide to the public, against commitments to reduce the administrative burdens on charities. A 'one size fits all' approach to reporting on public benefit is therefore not considered to be appropriate.

- 3.32 The proposals in the draft 2007 Regulations include different requirements for smaller charities. The trustees of charities below the new statutory audit threshold introduced by the 2006 Act would be required to give a brief summary of how the charity's purposes have provided benefit to the public during the year. Larger charities, above the audit threshold, would be required to provide a more detailed account of how the charity's purposes have provided benefit to the public during the year.
- 3.33 The draft 2007 Regulations will require all those charities which must prepare an annual report to include in that report confirmation by the charity trustees that they have had regard to any guidance on public benefit published by the Commission when they exercise any powers or duties where the guidance is relevant.
- 3.34 The Charity Commission issued, on the 8th March 2007, draft public benefit guidance "Charities and Public Benefit" for public consultation. To accompany this draft guidance, the Charity Commission has also issued on its website its "Analysis of the law underpinning Charities and Public Benefit", which explains the legal basis for the principles of public benefit they have identified. Subject to the responses which it receives the Charity Commission will review the draft guidance and publish final guidance later this year.
- 3.35 Copies of the Charity Commission's consultation document "Charities and Public Benefit" and their analysis of the legal principles contained in "Analysis of the law underpinning Charities and Public Benefit" are available electronically at: [www.charitycommission.gov.uk/news/pbnewsindex.asp](http://www.charitycommission.gov.uk/news/pbnewsindex.asp)

**Questions:**

**Q13: Do you agree that it is appropriate for charities to report publicly how they meet the public benefit requirement?**

**Q14: Do you agree that the annual report of a charity is the best medium through which to report public benefit? If not, please explain what other medium should be considered and why.**

**Q15: Do the draft 2007 Regulations achieve the right balance in reporting public benefit and the regulatory cost of providing such information? If not, how might the provisions be improved?**

### **Extract from Draft 2007 Regulations**

The references to reporting public benefit are underlined.

#### **Draft Regulation 16(3) –**

(3) The report on the activities of a charity during the year which is required to be contained in the annual report in respect of each financial year of the charity prepared under section 45 of the 1993 Act shall specify the financial year to which it relates and shall–

- (a) in the case of a charity which is not an auditable charity, be a brief summary of
  - (i) the main activities undertaken by the charity during the year in order to further its purposes for the benefit of the public; and
  - (ii) the main achievements of the charity during the year.
- (b) in the case of a charity which is an auditable charity–
  - (i) be a review of significant activities undertaken by the charity during the year in order to further its purposes for the benefit of the public, including–
    - (aa) details of the aims and objectives which the charity trustees have set for the charity in the year, and details of the strategies adopted, and of significant activities undertaken, in order to achieve those aims and objectives;
    - (bb) details of the achievements of the charity during the year, measured by reference to the aims and objectives which have been set ;
    - (cc) details of any significant contribution of volunteers to these activities; and
    - (dd) details of the principal funding sources of the charity; and
  - (ii) contain a statement as to whether the charity trustees have–
    - (aa) given consideration to the major risks to which the charity is exposed; and
    - (bb) established systems or procedures in order to manage those risks; and
- (c) in either case–
  - (i) where any fund of the charity was in deficit at the beginning of the financial year in question, and the charity is one in respect of which a statement of accounts has been prepared under section 42(1) of the 1993 Act for the financial year, contain particulars of the steps taken by the charity trustees to eliminate that deficit;

- (ii) contain confirmation by the charity trustees that they have, in the administration of the charity, paid due regard to any guidance published by the Commission under section 4 of the Charities Act 2006; and
- (iii) be dated and be signed by one or more of the charity trustees, each of whom has been authorised to do so.