NEWS AND **VIEWS** FROM PLUMMER PARSONS

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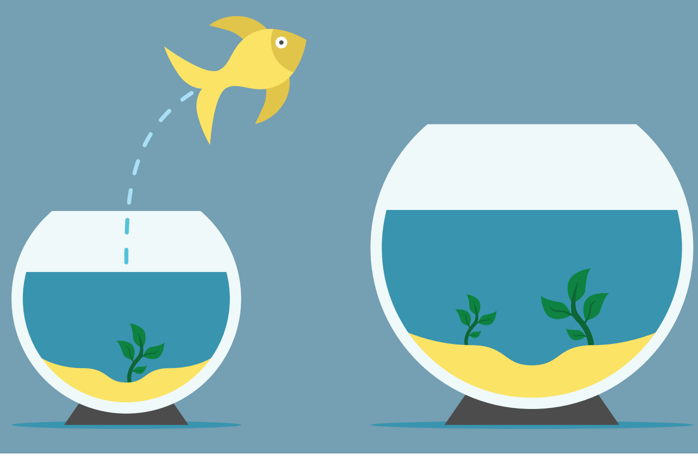
Is this the beginning of the CIO take over?



It has been possible for Charitable Incorporated Organisations (CIOs) to be formed for some time now. But up until recently this entity type was only used for newly registered charities, or unincorporated charities wanting to switch to an incorporated status. From 1 January 2018 this has changed and charitable companies are now, for the first time, able to convert to a CIO.

There is a phased approach being adopted by the Charity Commission, to try and stagger the number of conversions based on turnover. Below is a table of the dates from which conversion is possible for each band of turnover:

Date	Annual income
1 January 2018	Less than £12,500
1 March 2018	Between £12,500 and £25,000
1 May 2018	Between £25,000 and £100,000
1 June 2018	Between £100,000 and £250,000
1 July 2018	Between £250,000 and £500,000
1 August 2018	Greater than £500,000

We are told that this conversion is a relatively straight forward process for most charities. The Charity Commission will be liaising with Companies House when applications are made so that the date of conversion to a CIO matches the date the company has been removed from Companies House.

By converting your charitable company to a CIO you are able to dispense with the extra Companies House administrative burdens you have previously been subject to as a company limited by guarantee.

We are expecting CIOs to become a more popular legal status for charities going forwards given the above changes. So here are some of the benefits and drawbacks of a CIO.

The members and trustees will usually be protected from financial and contractual liabilities incurred by the charity. This is presently the case with companies limited by guarantee, but this protection is not something applicable to unincorporated charities. As with a company limited by guarantee, a CIO is its own legal personality. It is therefore able to contract in its own name, rather than the names of the trustees as with an unincorporated charity.

Now what about some of the drawbacks? There is no provision for the maintenance of a register of charges. This means that a CIO will find it difficult to issue a floating charge. This drawback will make this legal status less desirable for larger charities. The CIO must hold an AGM of its members, something that is not currently required by companies limited by guarantee. But from experience, most charities do hold AGMs, so this is not likely to cause significant issues. The Charity Commission will also require any changes in Trustees to be notified to them within 28 days. This time frame is not currently an issue for other charities, so any charity wishing to convert to a CIO should ensure that the Trustees are aware of their statutory obligations. One final drawback is that it is a new type of legal personality that has not been in existence for too long. This means that it is not tried and tested. It is therefore unclear about how certain aspects will work in practice.

Please contact one of the charity team to discuss what type of legal status would best suit your charity's requirements.

Email us your details if you would like to receive this newsletter electronically.
Charities@p-p.uk

Monitoring charity performance

We are often asked "how should we evaluate the performance of a charity" and also "how do people evaluate the performance of this charity". The answer is not a simple one. There is no equivalent to 'earnings per share' for charities and in fact, judging charities on their financial performance is almost entirely missing the point.

You need to find out what the main purpose of the charity is and then how it delivers its strategy to achieve that purpose. All charities should provide information on their achievements in their Trustees' Report on the annual accounts. By reading a well written Trustees' Report you should be able to learn what type of charity it is, how it is funded, what its key policies are such as reserves, investment and grant-making and also how it manages risk.

The best reports clearly explain what the problem is that the charity is trying to solve, how it thinks that it can solve it and how successful it has been in achieving its aims. Ideally the report will then go on to explain the lessons learned and set out future plans.

If you look for 'administration costs' in a set of charity accounts, you will not find them. The administration costs of a charity are divided between support costs and governance costs. The support costs are the indirect costs of an activity or project – they are a necessary part of the operation, such as the rent for a youth club or paying the wages. Governance costs are the statutory costs of running the organisation and include the costs of trustee meetings (if any), audit and legal advice. You will have to look in the notes to the accounts to find the analysis of these costs.

The unspent funds of a charity are its reserves. Some charities do not need reserves, for example, endowed charities that distribute grants from the income earned. But many charities will have committed expenditure and need to hold reserves as a contingency fund. Most charitable organisations need some working capital. Many charities express their reserves policy as the number of days that the amount held in reserves would fund. It is not possible to judge whether this is appropriate or not unless the charity also explains the nature of the risks it faces and why they deem that the cover is sufficient. The reserves policy should explain why the charity needs to hold reserves, describe the level of reserves required, state the actual level of reserves held and explain any variation between the target and actual reserves.

Designated funds are part of the unrestricted reserves that have been put aside for a particular use. Notes to the accounts should explain the reason for these designated funds. Restricted reserves are funds raised for a specific project, that can only be used for that purpose.

It is always difficult to compare charities, unless they have similar operating and funding models. One charity may receive large block grants and another has to raise all their funds from the public, so you should expect the costs and financial profile to be different. However there is no doubt that a well written Trustees' Report will provide a useful narrative to give the charity's various stakeholders a proper insight into the charity's health and performance.

Cloud accounting

Don't forget to talk to us about your charity's cloud accounting needs.

REMINDER

The General Data Protection Regulation (GDPR) comes into effect on 25 May 2018. Make sure that you and your charity are ready. See our last newsletter for more information on this.

TaxaPP

Keep up to date with the latest tax rates and news by downloading our TaxaPP today, available from the iOS App store or Google Play.

Download our TaxaPP now

Did you know?

Tax and accounting are rapidly going digital. Gift Aid is already digital. The world of compliance is fast becoming digital. This can be looked on as an inconvenience, or an opportunity to improve your charity and make it more efficient. Plummer Parsons has the knowledge and experience to help you implement digital solutions that will not only meet compliance needs but, more importantly, enable you to put people not paperwork first.

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