

15 July 2008

Our ref: ICAEW Rep 82/08

Your ref:

Patrick Smidmore  
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By email: [publicbenefit@charitycommission.gov.uk](mailto:publicbenefit@charitycommission.gov.uk)

Dear Mr Smidmore

**PUBLIC BENEFIT AND FEE-CHARGING:  
DRAFT SUPPLEMENTARY GUIDANCE FOR CONSULTATION**

The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the consultation paper *Draft supplementary guidance on public benefit and fee charging* published by the Charity Commission in March 2008.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

The Institute's Charities Sub-Committee is responsible for co-coordinating the technical considerations of the charity sector with respect to chartered accountants working within or for charities. Its membership represents the interests of practitioners, their clients and chartered accountants employed in financial roles within charities.

**Quantifying and assessing the impact of benefits**

We are concerned that quantifying and assessing public benefit is very difficult, and that it would take a lot of work to prepare the underlying information and perform the calculations proposed. Given that much of the data will be qualitative, not quantitative, the process will be highly subjective so it would require a lot of detailed guidance to ensure any sort of meaningful, consistent approach. We note that the proposal is expressed in terms of 'good practice', but the supplementary notes issued with the consultation draft state that 'trustees of fee-charging charities will be required by law to have regard to this supplementary guidance when it is published in its final form'. We do not consider that it is appropriate to make a complex and highly subjective calculation the subject of a formal requirement.



Our main difficulty is with question 19: *“Do you think that, as a matter of good practice, the trustees of high fee-charging charities should consider expressing their charity’s public benefit by assessing and reporting the quantified (financial, social or other) value of the benefits they provide, alongside the value of the tax breaks, or other benefits, they receive?”*.

In the first place, there will need to be carefully thought through and tight definitions of subject matter and assumptions (eg, what is the ‘benefit’ or ‘value’ to be measured). If there is not, the range of results will be so broad as to be meaningless. Even in, say, actuarial valuations for pension schemes, where the bases and assumptions are well defined (and are subject to extensive professional guidance), the range of possible values can result in material differences in accounting outcomes.

Secondly, there is no easy cut-off point for calculating benefit or value. In education, and even health, it may take many years for the effects of an event or transaction to bear fruit. And how should the cumulative effect of an output be measured? One free place at a public school may result in a person whose parents could not have afforded the fees him or herself using the education obtained (in the broadest sense, not just passing exams) to make a major contribution to society as an adult.


Thirdly, we do not think the opposite side of the equation, that of the “tax breaks or other benefits” received by charities, is as easy to quantify as might be expected. For example, charities cannot as a general rule recover input VAT on their expenditure (although of course certain education and healthcare services are exempt from VAT), so this represents an additional cost. And ‘tax breaks’ do not mean the same to a charity as they do to a for-profit business: they simply mean that there may be more money available to spend on charitable purposes than would otherwise be the case. How are ‘other benefits’ to be defined?

So far as providing specific examples is concerned, we agree that it is not helpful for the Charity Commission to attempt to show how the calculation might be performed in practice.

In summary, we do not consider that there should be a legislative requirement for trustees of fee-charging charities to calculate the public benefit that they provide, because we believe that the exercise will be complex and disproportionately expensive, if it is practicable at all. We do support the principles that underlie the consultation, but consider that there are more effective ways, utilising the skills of pre-existing commentators and capacity building bodies in the sector, to develop best practice guidance on trustees’ assessment of how their charities’ outputs measure up against their charitable objectives.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely



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