

July 2009

Public Benefit Reporting

The requirement for charities to have charitable purposes or “aims” that are for the public benefit and to report specifically on the ways in which they have met this requirement has been highlighted by the Charities Act 2006. The Act introduces two tests of charitable purpose – one of which is to demonstrate that the purpose is for the public benefit. The Act also requires the Charity Commission to promote awareness and understanding of the operation of the public benefit requirement and to publish guidance on what the requirement means.

As a direct consequence of the revised legislation, for accounting periods starting on or after 1 April 2008, charities are required to include in their trustees’ or annual report an explicit statement that the trustees have had regard to the Charity Commission guidance on public benefit.

The annual report should then include “a review of the significant activities undertaken by the charity during the relevant financial year to further its charitable purposes for the public benefit”. The benefit provided by a charity may be equated to its achievements in a particular year. Therefore, the Charity Commission has noted in its guidance that, for most larger charities, the new requirements should not significantly affect the existing structure of their trustees’ or annual report prepared in accordance with the Statement of Recommended Practice, Accounting and Reporting by Charities (SORP 2005). It is hoped that by providing information in the context of a charity’s aims, the trustees will enable a reader of the charity’s report to better understand how, in practice, the trustees of the charity are setting strategies and carrying out their charity’s aims for the public benefit.

From the examples that we have seen to date, some charities have included a separate paragraph to set out why the trustees consider the activities of the charity to be for the public benefit while others have gone for incorporating additional material in to the general narrative on the objectives, strategies, activities and achievements of the charity – if necessary. We believe that this latter approach is the more appropriate for most charities and it fits better with the Charity Commission’s expectation that complying with this requirement should not significantly affect the existing structure of the trustees’ or annual report.

Generally, therefore, compliance with the public benefit principles will be demonstrated by the trustees giving a detailed explanation of those activities of the charity which have been performed in order to fulfil its charitable aims. The first of two public benefit principles states that there must be an identifiable benefit or benefits, it must be clear what the benefits are and that the benefits provided must be related to the aims of the charity. A charity needs to explain in respect to each of its aims the manner in which the public benefit requirements have been satisfied. Activities performed which do not further the objects of a charity will not be deemed to demonstrate that it operates for the public benefit.

The Principles of Public Benefit

1. There must be identifiable benefit or benefits
 - i. It must be clear what the benefits are
 - ii. The benefits must be related to the charity’s aims
 - iii. Benefits must be balanced against any detriment or harm

1. Benefit must be to the public, or a section of the public
 - i. The beneficiaries must be appropriate to the aims
 - ii. Where benefit is to a section of the public, the opportunity to benefit must not be unreasonably restricted:
 - iii. By geographical or other restrictions; or
 - iv. By ability to pay any fees charged
 - v. People in poverty must not be excluded from the opportunity to benefit
 - vi. Any private benefits must be incidental

Contact us

If you would like to discuss any of the issues mentioned in this Need to Know, please contact a member of our Charity team at:

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The second principle includes a need for the benefits to be to the public or a section of the public. It is important for charities to explain who the beneficiaries are to demonstrate that the benefits are not provided to an overly narrow section of the public.

The second principle also states that the opportunity to benefit must not be unreasonably restricted by ability to pay any fees charged and that people in poverty must not be excluded from the opportunity to benefit. Therefore, charities will need to explain how beneficiaries can access the services the charity provides. The definition used for those in poverty is the Oxford English Dictionary definition, that is "of a person or people; having few, or no, material possessions; lacking the means to procure the comforts or necessities of life, or to live at a standard considered comfortable or normal in society; needy, necessitous, indigent, destitute". Poverty, however, is a relative term which may be interpreted differently depending on an organisation's aims.

When assessing public benefit the Charity Commission will consider the totality of the benefits provided in further of each of the aims of a charity.

Example

The ABC Educational Trust is a charity operating an independent school with the stated aims of "providing a first class education to girls aged 11 to 18. The School provides an environment where each girl can develop and fulfil her own potential, building her self confidence and a desire to contribute to the wider community. In doing this the girls are enabled to face up positively to the opportunities, responsibilities and experiences of later life."

As with many fee charging organisations, the removal of the presumption of public benefit for educational charities will require The ABC Educational Trust to review the level of access to school bursaries and the other charitable activities it provides. It is important that its annual report explains the variety of activities that the Trust is undertaking so that a rounded and full view of the benefit provided by the charity is explained. Within its trustees' report, the Trust should be highlighting the following:

- Its bursary policy – the value of bursaries, the percentage of children benefitting from bursaries, the type of bursary available (i.e. full bursaries or a percentage of fees), and the process by which a bursary may be obtained – including the existence of means testing;
- Its policy with regard to scholarships based on academic achievement and reduced fees such as sibling discounts (to promote family continuity) and staff discounts (to encourage quality candidates);
- The use made of the school's facilities by other groups outside of school hours and the fees charged (if any) for such usage;
- Collaboration with local state schools educating girls in the same age range – staff exchanges, shared lessons, shared use of facilities, school trips and outings attended by pupils of both schools, events co-hosted by the school and the local state school, etc;
- Development of links with a girls' school in a developing country and encouraging pupils of the two schools to write or email on another, exchange visits, etc;
- Educating the whole person – not just academically but socially also through extra-curricular activities, encouraging volunteering, fundraising, etc.