haysmacintyre

"OVERALL AUDIT SERVICE AWARD" - WINNER 2009
Annual *Charity Finance* survey

not for profit | grants v contracts

the team

Bernie Watson
partner
020 7969 5510
bwatson@haysmacintyre.com

Richard Weaver
partner
020 7969 5567
rweaver@haysmacintyre.com

Murtaza Jessa
partner
020 7969 5551
mjessa@haysmacintyre.com

Noble Hanlon
partner
020 7969 5548
nhanlon@haysmacintyre.com

David Sewell
partner
020 7969 5568
dsewell@haysmacintyre.com

Adam Halsey
partner
020 7969 5657
ahalsey@haysmacintyre.com

Tracey Young
partner
020 7969 5654
tyoung@haysmacintyre.com

The significance of the distinction between a grant and a contract can be critical to a charity, it may determine whether the funding is restricted or unrestricted. It may also impact on the vatable status of a supply.

The form of wording used in recent times especially in government and other third sector agreements has not been useful for determining these points. It is also topical where charities are finding it increasingly difficult to secure funding that covers 100% of the costs of delivering projects and programmes – it could be a deciding factor on whether to accept an agreement or not, whether the purpose of the funding is to generate a surplus (generally unrestricted) or help to achieve a stated aim or objective of the charity (can be unrestricted or restricted).

The classic scenario is a funding agreement which is drafted with the words 'Service Delivery Contract'. The agreement sets out certain deliverables but when the funding body is asked 'Is this restricted or unrestricted funding?' nine times out of ten they say that it is most definitely restricted.

Funders want to have their cake and eat it. So what can a charity do in this situation? Well there are a number of recognised indicators for interpreting agreements which may also assist charities in their negotiations with the funding bodies and ensure from the outset that they both understand what is on the table.

This interpretation will then drive the accounting treatment for disclosure purposes e.g. whether they should be accounted for as an unrestricted or restricted project.

There are no hard and fast rules but in general the following are relevant factors:

unrestricted projects tend to exhibit the following:

- the funder receives a service i.e. if it doesn't pay the charity to do the work, it will need to pay another body or do the work in house. It is contracting out a particular service or deliverable

Kathryn Burton
partner
020 7969 5515
kburton@haysmacintyre.com

Les Jones
Charity Consultant
020 7969 5538
ljones@haysmacintyre.com

Anne Gregory-Jones
Tax Partner
020 7969 5520
agregory-jones@haysmacintyre.com

Graham Elliott
VAT Partner
020 7969 5610
gelliott@haysmacintyre.com

- receipt or draw down of funding is only after satisfactory completion of work done or targets achieved and the service provider has a legally enforceable right to be paid for work performed. The agreement normally establishes a clear link between outputs and funding i.e. provide 1000 meals at £3 a meal, or train 500 people between 1 January and 30 June

- any unspent monies represent a surplus to be retained by the charity. Conversely any overspend must be met by charity reserves

- funding is often specifically linked to a stipulated timeframe, often with milestones. This is also important in determining the recognition of income for cut off at a period end. If the milestone has not been reached, then only a percentage of the income may be recognised

- the agreement is often the result of a competitive tender – i.e. funders request charities and other organisations to tender for delivering a particular service or programme, rather than the charity approaching the funder

- such funding may be trading i.e. not directly related to achieving the objects of the charity, but carried out to generate a surplus. In such cases the agreement is also likely to attract VAT

restricted projects tend to exhibit the following:

- the funder may not receive any direct benefit i.e. a grant giving foundation may fulfil its objects by giving money, but it does not receive a service

- payment is voluntary. The funder decides that it wishes to fund the charity for a particular project or programme, usually following an approach by the charity

- any money unspent may ultimately be repayable to the funder. This is often a clause within the terms and conditions. Conversely any overspend on a project is likely to be met by a transfer from unrestricted funds or specific fundraising activity

- the documentation may specify how funding is to be spent in line with an overall budget. Terms and conditions often specify the categories of expenditure that can and cannot be claimed from the funder. Claims for funding may require an update of expenditure against the original budgets on a quarterly basis

- here is unlikely to be a direct linkage between outputs/outcomes and funding receivable. Where outputs/outcomes are specified, these may be indicative targets and a failure to reach targets will not necessarily result in a reduction in funding

- the funding received may only be part funding where, for example, a charity approaches a number of trusts and other organisations to contribute towards a particular project or programme. This is often termed 'matched funding' where it relates to a condition in a funding agreement, by a principal funder, that the charity also achieves additional funding from other sources

- there is often more flexibility regarding the period over which the funding may be expended. Where dates are not specified in an agreement, the accounting treatment generally follows the receipt of funding and can lead to restricted funds carried forward if the funding spans a period end. Where dates are specified, this can lead to accounting adjustments for deferred and accrued income

- it is generally the result of an application made by the charity on the back of its own ideas and strategy, rather than in response to an invitation to tender.

Although these are not hard and fast rules, they provide a benchmark against which to assess individual agreements and provide pointers when negotiating with funding bodies. It may also assist fundraisers or other programme leaders who are applying for funding to understand the nature of the agreements that they are trying to secure. Early determination of an agreement also assists the finance team to account for the fund correctly and to report budget and actual information to trustees on a consistent basis.

about haysmacintyre

haysmacintyre, Chartered Accountants and business advisers, works with over 550 charities and not for profit organisations in the UK and overseas. Our services include the full range of audit, tax, VAT and comprehensive advisory services. Our multi-disciplinary specialist team has extensive sector experience working for a diverse range of charities. We are based in one location which ensures an integrated and comprehensive approach to our clients' requirements.

haysmacintyre is a founding member of MSI Global Alliance (MSI), an international alliance of independent legal and accounting firms, with 250 members in 100 countries.

haysmacintyre
Fairfax House
15 Fulwood Place
London
WC1V 6AY

t 020 7969 5500
f 020 7969 5600

e marketing@haysmacintyre.com
w www.haysmacintyre.com