

NOT-FOR-PROFIT ORGANISATIONS, PART 2

The term 'charity' refers to the practice of benevolent giving. Charities are established for general or specific philanthropic purposes. They are one type of not-for-profit organisation, but with several additional distinguishing features:

- they exist entirely to benefit defined groups in society
- as their purposes are philanthropic, they can usually avail themselves of favourable tax treatment, and for this reason have to be registered with a regulator
- their activities are restricted or limited by a regulator
- they rely on the financial support of the public or businesses (or both) in order to achieve their objectives
- in order to be financially viable, they rely heavily on voluntary (unpaid) managers and workers.

CHARITABLE ACTIVITIES

In the UK, charities are regulated by the Charities Act 2006, which sets out in very broad terms what may be considered to be charitable activities, many of which would be considered as such in other jurisdictions within most other countries. These include:

- the prevention or relief of poverty
- the advancement of education
- the advancement of religion
- the advancement of health or the saving of lives
- the advancement of citizenship or community development
- the advancement of the arts, culture, heritage or science
- the advancement of amateur sport
- the advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity
- the advancement of environmental protection or improvement
- the relief of those in need, by reason of youth, age, ill-health, disability, financial hardship or other disadvantage
- the advancement of animal welfare
- the promotion of the efficiency of the armed forces of the Crown or of the police, fire and rescue services or ambulance services
- other purposes currently recognised as charitable and any new charitable purposes which are similar to another charitable purpose.

The activities of charities in England and Wales are regulated by the Charity Commission, itself a not-for-profit organisation, located in Liverpool. The precise

definition of what constitutes charitable activities differs, of course, from country to country. However, most of the activities listed above would be considered as charitable, as they would seldom be associated with commercial organisations.

CORPORATE FORM

Charities differ widely in respect of their size, objectives and activities. For example, Oxfam is a federal international organisation comprising 13 different bodies across all continents, while many thousands of charities are local organisations managed and staffed entirely by volunteers. Unsurprisingly, most of the constituent organisations within Oxfam operate as limited companies, while local charities would find this form inappropriate and prefer to be established as associations.

A charity is not forbidden from engaging in commercial activities provided that these activities fully serve the objectives of the charity. For example, charities such as the British Heart Foundation, the British Red Cross, and Age Concern all raise funds by operating chains of retail shops. These shops are profitable businesses, but if a company is formed to operate the shops, the company would be expected to formally covenant its entire annual profits to the charity.

Charities with high value non-current assets, such as real estate, usually vest the ownership of such assets to independent guardian trustees, whose role is to ensure that the assets are deployed in a manner that reflects the objectives of the charity.

The guardian trustees are empowered to lease land, subject to the provisions of the lease satisfying requirements laid down by the Charity Commission.

FORMATION, CONSTITUTION AND OBJECTIVES

Charities are always formed with specific philanthropic purposes in mind. These purposes may be expanded or varied over time, provided the underlying purpose remains. For example, Oxfam was originally formed as the Oxford Committee for Famine Relief in 1942, and its original purpose was to relieve the famine in Greece brought about by the Allied blockade. Oxfam now provides famine relief on a worldwide basis.

The governing constitution of a charity is normally set down in its rules, which expand on the purposes of the business. Quite often, the constitution dictates what the organisation cannot do, as well as what it can do.

Charities plan and control their activities with reference to measures of effectiveness, economy and efficiency. They often publish their performance outcomes in order to convince the giving public that the good causes that they support ultimately benefit from charitable activities.

MANAGEMENT

Most charities are managed by a Council, made up entirely of volunteers. These are broadly equivalent to non-executive directors in limited companies. It is the responsibility of the Council to chart the medium to long-term strategy of the charity and to ensure that objectives are met.

Objectives may change over time due to changes in the external environment in which the charity operates. Barnardos is a childrens' charity that was originally founded as Doctor Barnado's Homes, to provide for orphans who could not rely on family support.

The development of welfare services after World War 2 and the increasing willingness of families to adopt and foster children resulted in less reliance on the provision of residential homes for children but greater reliance on other support services. As a result, the Barnardos charity had to change the way in which it looked at maximising the welfare of orphaned children.

Local charities are dependent on the support of a more limited population and therefore have to consider whether their supporters will continue to provide the finance necessary to operate continuously. For example, a local charity supporting disabled sports could be profoundly affected by the development of facilities funded by central or local government.

Every charity is confronted by distinctive strategic and operational risks, of which the Council must take account in developing and implementing its plans. International aid charities are vulnerable to country risk and currency risk, so plans have to take account of local conditions in countries whose populations they serve. Many such countries may, of course, be inherently unstable politically.

Operational risk for charities arises from the high dependence on volunteer workers, including the extent to which they can rely on continued support, as well as problems of internal control. For example, many charities staff their shops with the help of unpaid retired people, but there is some debate as to whether future generations of retired people will be as willing to do this for nothing.

As many charities have to contain operating expenses in order to ensure that their objectives can be met, it is often difficult or impossible for them to employ full-time or part-time paid staff to replace volunteer workers.

Risks also arise from the social environment, particularly in times of recession, when members of the public may be less disposed to give to benefit others as their discretionary household income is reduced.

There is some evidence of 'charity fatigue' in the UK. This arises when the public feel pressurised by so many different competing charities that they feel ill disposed to give anything to anyone at all.

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Test how much of this article (and Part 1) you have understood below.

CHECK YOUR UNDERSTANDING

Test your knowledge by answering these self-test questions – the questions are based on both this article and Part 1.

Question 1

What performance measures might be used by a famine relief charity?

Question 2

Why do individuals give to charities?

Question 3

XYZ Charity provides local community facilities for disabled persons participating in sports. Its management committee wishes to outsource the operation of its club premises and land to a specialist organisation. What conditions might be imposed by the governing council of XYZ Charity?

Answer 1

The measures that might be used include:

- income in donations and changes in income over time
- income by source – personal donations, corporate donations etc
- responses to campaign initiatives such as television adverts, newspaper coupon advertising, appeals relating to specific crises, and collection envelopes
- cost containment measures, such as management costs and other operating expenses (this is a particularly important factor, as some charities are criticised if administration costs absorb a high proportion of income)
- income from commercial activities
- numbers of volunteers attracted
- changes in mortality and sickness in areas where relief has been provided.

Answer 2

There are many motives for giving to charities. In relation to charities that finance research into illnesses and diseases, such as cancer research, many people give because they or their families have been affected personally by the illnesses and diseases. They may give to similar charities such as Marie Curie nurses (who provide help for those affected by cancer) in order to give something back to those who have supported them.

Some give to charities because they have a deep-seated belief in what the charity does. A good example of this is Amnesty International.

A purely financial motive for giving is to avail oneself of tax breaks, as most charitable donations can be set against tax liabilities.

Some give because they regard it as an expectation of society, or because they follow the example of family and friends.

Another motive for giving is simply that it makes some people feel good, or raises their profile with others.

Answer 3

The council would wish to ensure that:

- the commercial value of the premises/business has been assessed by a suitably qualified valuer
- an appropriate rent would be included in the lease to ensure that income would be at least that received under existing arrangements, and that appropriate steps would have been taken to secure highest possible rent
- the lessee would sign a covenant to be bound by the rules of the charity, as well as any covenants applicable to the title to the land
- the property belonging to the charity could not be used in any manner inconsistent with the aims and objectives of the charity
- any conditions applicable to the lease would be applicable to any subsequent sub-lease, or that sub-letting would be prohibited/restricted
- the tenant would be a fit and proper person.