CFG INSPIRING FINANCIAL LEADERSHIP

FINANCE FOCUS

The magazine for CFG members

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COVID-19 AND LOCKDOWN: WHAT HAPPENED NEXT?

Contents

Overstretched but resilient

When CFG invited me to guest edit *Finance Focus* over the summer months, I was delighted.

I've been a big fan of CFG since 2004 when I made my first foray into charities as the deputy editor of one of the sector's trade titles. How the world has changed since then. Labour was still in power, we were about to Make Poverty History and Facebook was just a twinkle in Mark Zuckerberg's eye.

I was reflecting on how different life is today after coming across a copy of *Funding the Future* gathering dust in my office. Published in 2010, this was the Funding Commission's 10-year framework for civil society. It presented two possible scenarios: one where public services were cut to the bone, charities were strained and individuals suffered. The other was a vision of a new social contract involving innovative cross-sector partnerships, new financing arrangements and flourishing communities. I know which I prefer. Sadly, we never quite got there and thanks to Coronavirus the road to this utopia is even longer and more challenging.

Charities have been overstretched for some time now. Increased demand for services coupled with funding cuts and stagnant voluntary income were already proving unsustainable. Now that pressure has intensified to the point where many are at breaking point – even those charities that were previously secure.

This is not good for society, for the people who work at those organisations or for the wider economy.

However, the government is still to recognise this fact. As Caron Bradshaw points out in her column on page 6, the charity sector generates £200bn of value for the UK and yet the Chancellor only saw fit to offer £750m in support during the crisis.

But all is not lost. As those members who contributed to this month's cover story demonstrate, charities are adapting and finding new ways to support their beneficiaries. I also know from having worked with charities over the last 16 years that this sector is resilient and creative and you will find a way to survive. You have to – the role you play is critical.

You cannot do this alone. Which is where CFG and this magazine come in. I'd love to know what information you would find useful to help you not just survive but thrive. Feel free to email your suggestions to me at **becky@slackcommunications.co.uk**

Becky Slack, guest editor, *Finance Focus*

Have your say in the CFG members' survey

CFG wants to hear from all our members on how we're doing, so we can keep supporting your financial resilience now and in the long term.

We have launched an online survey so you can have your say on how CFG has been supporting you through the challenges of COVID-19. We also want to hear from you on which topics you'd like to hear more about, and your feedback on what else you would like to see us doing.

It only takes a couple of minutes and your feedback is very important in helping us develop what we do for the CFG community and your beneficiaries.

Go to **www.surveymonkey.co.uk/r/CFGmembers** to complete – open for a limited time.

We also have a separate survey open for our AIM member community – AIM members go to **www.surveymonkey.co.uk/r/AIMCFGsurvey**

New helpline launched for CFG members

Charity recruitment experts and CFG corporate members Goodman Masson have launched a specialist helpline for CFG members to support you during COVID-19.

Recruitment is a challenge for many CFG members especially in the current climate. Goodman Masson's helpline will support you with:

- Advice around recruiting in the current climate – how best to do it and what needs to change in current circumstances
- Remote interviewing and on-boarding – case studies of learnings from the sector
- Workforce planning whilst in lockdown – how to manage resignations, leavers, and remote handovers
- Offering clients an idea of the recruitment market – advice on candidate perspectives in the current climate, and how best to attract talent

Goodman Masson's Charity Finance team are market-leading specialists in the not-for-profit sector with a dedicated specialist for recruitment at all levels, from executive search to newly qualified and below.

CFG members can access the helpline at:

- **Goodman Masson 020 7019 8837**
- **Magella.Burnett@goodmanmasson.com**

The Pink Book 2020

The CFG annual handbook The Pink Book brings together the big picture for the sector in 2020, with sector leaders sharing their thoughts and insights across the most important issues of the year. If you've not yet received your digital copy email **abby.warren@cfg.org.uk**. Print copies are also available on request later in the year.

Join the CFG mentoring programme

Now in its second year, our popular mentoring programme is in full swing for 2020 and our membership team are hard at work rolling out the scheme online for easier access for our members across the country.

Drop our membership team an email to find out more or if you would like to express your interest in joining the programme.

Contact: **membership@cfg.org.uk**

Are you signed up for CFG emails?

Don't miss out on your monthly magazine, events and training launches, and essential sector updates on our policy and campaigns.

myCFG is available to CFG members through your website login, so you can sign up to your preferred emails from CFG, and manage your account online.

1. If you do not have a website login yet, register at **www.cfg.org.uk/login**
2. Login to the CFG website and go to myCFG at the top right of the page
3. Sign up to our emails to receive *Finance Focus* magazine, events information, news about your membership, policy updates and more.
4. CFG membership is open to your whole organisation, so everyone from the finance team to your trustees can benefit too. If you're the primary user on the account, you can add other contacts from your organisation.

Find out more about how to use myCFG with our guide **https://cfg.org.uk/GuideMyCFG** or drop our membership team an email if you have any questions **membership@cfg.org.uk.**

Welcome to our new members

Ocean Conservation Trust	Advantage Africa
Neighbourhood Watch Network	The Guildhall School Trust
The Thomley Hall Centre Limited	Hope For Justice
Dame Agnes Weston's Royal Charity for the Naval Service	Cochrane
	Lighthouse Futures Trust

Contents

Running on empty

Caron Bradshaw,
Chief Executive, Charity Finance Group

If the economic benefit of business is understood, why can't the same be said for charity?

Have you ever had to bump start your car knowing that a few miles down the road you will run out of petrol? That is how the last few weeks have felt for me; the elation you feel as the car bursts into life gives way to the anxiety that at any minute you'll be stranded once more.

When this crisis struck it was like collectively experiencing a flat battery. We turned the metaphoric key in the ignition to hear that ominous 'click'. Nothing. Overnight, income collapsed. Thankfully there were plenty of people around to put their shoulders to the bumper. With infrastructure all pushing in the same direction we quickly gained momentum and were able to get things going. But we knew that there was insufficient in the tank to sustain us and it wasn't long before we experienced the splutters and jolts, the tell tales signs we were running on empty.

Throughout March, philanthropists and grants makers did what they could to support. But when you know your journey is long and your fuel in short supply, however welcome the sight of those little green jerry cans is, it's only the garage emerging on the horizon that finally settles your nerve.

Without wishing to over stretch my analogy, let me share a story. A few summers ago, I was standing behind a woman in our local petrol station. Her card was declined. Despite multiple telephone calls she didn't seem to be able to resolve her predicament. People in the queue were getting testy with her for holding up their day. She even offered to leave her engagement and wedding rings in the till as security against her purchase. But the garage owner had probably seen this many times before and lacked empathy or suggestions. I asked if she'd tell me how much she needed. It was just £15; in the grand scheme of things, nothing!

I offered to pick up her bill. She'd no means to pay. She wasn't local enough to get someone to pop along to pay for her. Some people scoffed at me and asked if I'd like to pay theirs too. The general assumption was that I was being a mug and I was about to lose my fifteen quid. She was so grateful. So relieved. She cried. We swapped addresses and I wished her well.

Right now, the government is that garage, and we are a fleet of emergency vehicles, all with limited fuel in the tank. Our journeys are long and essential. Only they can fund at the scale required to ensure we can continue to reach those relying on us. And 5ltr cans don't cut it!

Sadly, like the woman at the garage we are struggling to prove that we are a worthy cause, that the money will not be wasted, that our journeys are essential.

The package of measures announced was extensive but insufficient and I've been struggling to strike the right note in pressing for more publicly. We've been no less vocal and active behind the scenes of course; trying to secure the equitable distribution of funds, amending schemes to be fit for purpose for charities, trying to calculate and evidence how much we need to keep us going until the next garage.

There remains an appetite for collaboration but the momentum has slowed. As we wrestle with how to navigate the next stage of our journey the needle is again moving dangerously close to empty. So where next?

We could accept government has done all it is prepared to do. However, we cannot rely on willing volunteers to push our proverbial car for the miles we have still to travel. Nor can we hope that grant makers and philanthropists will emerge with their fuel cans in sufficient numbers, at the right points along the road, to keep us topped up and motoring. There are only so many hills we can freewheel down, or passengers we can decant from our vehicles, to preserve resources. Sooner, or later, we are going to need that garage.

> *"£585m for a single company. £750m for all of us.*

The problem is we haven't convinced government that its assumptions about the sector's balance sheet, efficiency and effectiveness are wrong and that it is in its and society's best interests to invest in us. Government gets business. Yet it seems the case for the value we create or the long term benefit we generate for the economy (put at £200bn by the Bank of England's Chief Economist, Andy Haldane) is yet to be accepted. How else might we explain £750m for an entire sector (c170,000 orgs) versus Tesco receiving £585m in rate relief, whilst concurrently distributing £635m to shareholders and seeing sales increase by 30% during the crisis.

£585m for a single company. £750m for all of us.

If the inherent benefit to the economy is taken as read for big business, why can the same not be said for charity? The UK government, having offered so much for so many, is at a fork in the road. If it wants to 'build back better' different choices are required.

In my story, if a local businessman had been similarly stranded the garage would have trusted him to return with payment because he is known and trusted as 'good for it'. I know because I've seen it happen. But the woman in my story was not.

My trust was well-placed: £25 arrived in the post with a beautiful card and message. That extra tenner went to a charity. I was glad I acted. My humanity demanded it. I feel the same today; Government needs to accept and trust that we are essential to society. It should facilitate our role in building back better as partners – otherwise there will be many citizens stranded on the proverbial highway in vehicles that have ground to a halt. For some, that will be a fatal error of judgment.

Influencing policy

Roberta Fusco, Director of Policy and Communications

We are working closely with others to secure more support for our sector during the crisis

The tanks of charities across the country are running dry and those who stand to lose the most are not charities themselves, but who they support. I have previously set out what CFG's next steps would be to influence policy and secure long-term financial support, following the 'emergency' funding announced in April. It is still true to say that some of this money is still yet to reach charities (and see this from NPC things for a tracker of where the money has gone to date) but in the past few weeks, we've seen more funding pots announced and the National Lottery Community Fund finally opening to applications. We'd love to hear about your experience of applying, if you have done so.

There are ongoing government inquiries which CFG have contributed to or will be doing so over the next few weeks. The Department for Culture, Media and Sport (DCMS) has finally responded to the DCMS Select Committee Inquiry into the impact of Covid-19 on charities and we, together with others from across the sector, wrote to the Chair of the Committee to urge a response from the government regarding the need for the exit of the Coronavirus Job Retention Scheme to more closely align with the end of social distancing measures.

The Department for Business, Energy and Industrial Strategy (BEIS) has announced a Post Pandemic Economic Growth 'Super Inquiry' which will look at the options available to secure our economic recovery from the impact of the crisis. CFG will be working with others to ensure we contribute where most effective. Other members of the Never More Needed coalition are giving evidence to the Lords Select Committee on Public Services inquiry into Covid-19 and CFG will support where possible.

We have continued to track the impact of the pandemic on charities and the next iteration of our joint survey with the Chartered Institute of Fundraising will launch soon. Thank you to those who took part. We will use this in our efforts to lobby government and decision makers, particularly the data on the projected loss of income and the implications for the end of government support measures.

We rely on your engagement to make our policy and lobbying efforts successful. To this end, we're really pleased that the webhub for our campaign, Never More Needed, is now live (www.nmn.org.uk) Here you can find briefings, surveys and research, as well as opportunities to add your voice. Please get involved and ask your supporters to write to their local MP to showcase the importance of charities – big and small, national and local – to their everyday lives. Together, we will show that the work of charities is #NeverMore Needed.

> *"We rely on your engagement to make our policy and lobbying efforts successful.*

Finally, as this month's edition of *Finance Focus* was going to press, the announcement was made that the Department for International Development (DFID) is to merge with the Foreign and Commonwealth Office (FCO). We join with Bond and colleagues across the sector in being deeply disappointed and concerned about this merger at a time when support for the world's poorest and most vulnerable communities is never more needed. We will monitor the transfer of the UK Aid budget and what this will mean for the charities operating overseas delivering care across the globe.

Contents

Responding to Covid-19

A lot has happened since March when the country went into lockdown. We wanted to find out how our members had responded and spoke to a few of them to find out. Here's what they had to say

Effective communication has been central to our ability to respond

Stuart Fox, director of finance, RNIB

Coronavirus has had an enormous impact on the charity sector and the Royal National Institute of Blind People (RNIB) is no exception. But, with a lot of effort, strategic reprioritising and rapid formulation and roll-out of redevelopment plans, RNIB has met this challenge head-on. Rather than minimising our services, we have opened up our Helpline for longer to respond to an increase in calls and expanded our services and campaigns to ensure blind and partially sighted people get the resources and support they need.

At the very start of the pandemic, we recognised the risk at a corporate level and quickly mobilised our business continuity planning procedures and set up our Corporate Major Incident Response Team (MIRT) bringing together key leaders within our organisation to successfully identify and navigate through the challenges we face. This group still convenes to review key business areas, including services, people and finances, to ensure we stay on track.

Throughout this process, we kept staff, trustees and stakeholders closely updated with developments. With things moving so quickly, particularly in the early stages of crisis, this was critical.

When situations such as these arise, cash is king. To protect our financial outlook and liquidity, we also formed a Cash Committee. This consists of a small handful of key senior directors, including our chief executive and I, who closely manage the cash position. The Cash Committee meets weekly and manages our Liquidity Plan; which monitors all of

> *We've made fundamental differences to the way we work that have helped us react quickly and effectively*

our income streams, risk assessing them in real-time for impact and also considers all the mitigations that we can make to effectively minimise impact on liquidity. We then continuously update our base case, pessimistic and optimistic scenario projections to ensure we're on track.

Within the finance team itself, we've been incredibly busy, with modelling work to ensure that the Cash Committee is really well informed. We've been very fortunate to have a great digital team, who enabled almost all the staff to work effectively from home almost immediately.

Most importantly though, throughout this crisis we have been acutely focused on our people – our customers, staff, trustees, volunteers and stakeholders. Their wellbeing and our relationships together are the main things that have enabled us to navigate the crisis successfully.

Over the last few months, we've made fundamental differences to the way we work that have helped us react quickly and effectively. That will really help us think about how RNIB can be even more impactful to bring us closer to a world without barriers for blind and partially sighted people.

The challenges have been well publicised but not always accurately

Kevin Barnes, Congregational Chief Executive, Congregation of the Sisters of Nazareth Generalate

The Sisters of Nazareth operate 35 care homes globally, caring for 2,800 vulnerable older people. PPE is OK, although stocks are not always as high as we'd like. The biggest issues are staffing and finances. Staff have been fantastic and worked exceptionally hard in difficult circumstances. However, when staff are off sick or isolating it naturally places additional pressure on those who are at work, especially those working with frightened and isolated residents. Agency staff – the normal response – are less available as we don't want to increase the infection risk by having staff working in more than one home.

Costs are higher at the moment: staff, PPE, cleaning, medical goods consumables and

> *The extra income won't be as much as the increased costs, but by how much we don't yet know*

food costs have all gone up, and traditional supply chains haven't always been able to fulfil orders. There is additional income available but it has been inconsistent due to being distributed by local authorities, some of which have included conditions e.g. accepting all residents or paying staff more. The extra income won't be as much as the increased costs, but by how much we don't yet know. There are also hidden costs, such as not being able to fill empty beds during the pandemic. The additional income has mostly come quickly, which is welcome.

Looking to the future – infection control and staff training were good previously but current enhancements will be built on and embedded as part of the new norm. Supply chains will need to have backups. Longer term, there is a 20-year overdue review of social care that has to happen to make the last years of your life as happy as those that have come before and to truly reward those staff who we have been clapping for on a Thursday evening.

We have adapted service delivery and back-end operations

Sharon Martin, head of finance, Cats Protection

The immediate impact of lockdown was the closure of our 37 adoption centres to the public and the ceasing of homing through our 230 branches. When permitted by government, we launched Hands-Free Homing, which is proving very successful.

In addition, all face-to-face activity had to cease. This included fundraising activities, the closure of our 130 charity shops and educational talks. In response, we diverted budgets for face-to-face fundraising into digital, launched our Moggies Module educational packs and held a series of Facebook Q&A sessions to continue promoting our cat welfare messages.

Within finance, we have found that we can undertake most of our activities remotely. A small number of staff – no more than two at a time – make weekly visits to prepare banking, sign documentation and process post.

There have been a number of key challenges. Understanding government support was one. To decipher what help is available, we use networks and bulletins from CFG and Charity Tax Group and "meet" regularly with other charity finance leaders.

> *To decipher what help is available, we use networks and bulletins from CFG and Charity Tax Group*

Responding to Covid-19 continued

To help us manage the switch from managing against a budget to managing against the cash position, we now update the cash flow forecast fortnightly and have projected forward to December 2021. In addition we have concluded our 2019 accounts and completed the additional work needed for going concern, linking this with the forecasting and planning being performed for internal purposes to prevent duplication. There are obvious uncertainties regarding legacy income, which represents around half our funding. We are working with Legacy Foresight to understand what may happen.

Moving from 100% office-based to 100% remote working overnight and maintaining team motivation has not been without its challenges but we have successfully made the transition. We have regular team meetings and ensure that conversations are not entirely about work, reflecting normal office interactions.

Health and safety of people and IT were our top priorities

Jane Keeper, Director of Operations, Refuge

Responding to any changes in the way domestic abuse services are delivered is always difficult but doing this in the midst of a global pandemic has been especially challenging. Our IT department worked round the clock to make sure our critical services – such as our Helpline – remained open, while our operations teams moved with lightning speed to ensure our accommodation and community-based services were safe and also remained open.

Across England and Wales, one in three women aged between 16-59 will experience domestic abuse at some point in their lives. We anticipated that the numbers of women needing support during the lockdown might increase – and we needed to make sure we had capacity to respond to an increase in demand. Pre-lockdown, the National Domestic Abuse Helpline, which Refuge runs, was run from a cyber-secure impenetrable office environment 24/7. Very quickly, we mobilised our team of trained staff so they could work from home. This meant making sure the telephone system worked remotely, with the same security measures in place, and that our teams could access calls from home safely and confidentially, with all the necessary equipment to enable them to do this.

Such quick changes were challenging not only logistically but also financially. Major fundraising events, which are a staple form of income, were cancelled or postponed. We have been incredibly fortunate to have received some generous donations to Refuge during this time; every single one of them has our sincere thanks and gratitude.

> “Such quick changes were challenging not only logistically but also financially.

Our communications teams has been managing our media relations remotely, ensuring we amplify the voices of survivors and that we secure media coverage so as many women as possible know the details for our National Domestic Abuse Helpline. We've been working around the clock to respond to queries as there as there has been so much media attention on the issue.

Over the course of the lockdown, we've seen a 66% increase in demand for the Helpline as well as a shocking 950% increase in visits to www.nationaldahelpline.org.uk. This shows just how important Refuge's life-saving and life-changing specialist services are – now more than ever.

Going forward, we know there will be continue to be challenges. As lockdown measures begin to ease, we may see another spike in demand for the Helpline. That is why Refuge has worked hard to ensure its 'live chat' function is up and running so that women who need our support can talk live to a specialist Helpline worker – a vital service for those who are unable to call us for help. Women can also log onto www.nationaldahelpline.org.uk and request a safe time to be called.

How to help your board survive and thrive

Bob Humphreys,
chair of the audit and finance committee,
Education Development Trust

By being flexible, available and creative, finance trustees can play a supportive role throughout crises such as this

Trustees, as well as executive staff, are finding themselves in strange territory in the current crisis. Any event of such fundamental importance inevitably strikes at a time when many charities are already vulnerable: they may be in the middle of a major capital fundraising, which has to be put on hold; they might be recruiting for a new chair or chief executive, and have to pause the process or make interim arrangements; they might already have been restructuring in response to longer-term trends in fundraising, or in programming. And because the crisis will impact us for months, or even years, it means going through some form of strategic review, at a time when the crystal ball is completely cloudy.

There is a huge amount of advice out there already about "coping with the new reality", or encouraging charities to think in terms of new terms, such as "Protect, Pivot, Thrive". But interpreting what these headings mean in the context of each charity can be a difficult task. Finance trustees can play a vital role in supporting the rest of the board and executive, particularly within the following areas:

The devil is in the detail

While respecting that the trustee role is intended to be primarily strategic, it's OK to be sticking closer to the detail at these times: that could mean weekly or fortnightly calls to monitor cash and key funding relationships. Finance committees can take a lead on this regular monitoring, to give comfort to the rest of the board. In my experience, the executive will also feel reassured, rather than threatened by this closer scrutiny.

Perfect is the enemy of good

When preparing projections of reserves and cash, in order to assess future solvency, don't waste time looking for the perfect answer on which everyone can agree. The key is to produce future scenarios quickly, and then learn and adapt. The finance committee should be involved in developing alternative future scenarios and stress-testing them; and the pace of change means that any projections will need to be reviewed and updated, as often as monthly.

Use reserves wisely

Boards are sometimes opposed to drawing down on reserves below the target level, even in difficult times, but this reluctance can result in bad decisions. For example, prioritising short term needs over long-term sustainability can mean cuts in business development or fundraising resource. It may be helpful to think about a "red line" level of reserves, below the target, and to be willing to use the difference to protect long-term business critical resources. The support of finance trustees in promoting, rather than opposing, creative suggestions such as this, can be invaluable to the rest of the board.

> “Don't waste time looking for the perfect answer on which everyone can agree

CFG's response to Covid-19

John Tranter, interim finance director, CFG

How Charity Finance Group responded when the UK went into lockdown

Our members have demonstrated grit, determination and skill as they have navigated their way through this crisis. This has been reassuring to see and we are proud of both the professionalism and passion on offer.

Here at Charity Finance Group, we aim to inspire a financially confident, dynamic and trustworthy charity sector. We do this by championing best practice, nurturing leadership and influencing policy makers. Over 1,400 UK charities, that collectively manage £22bn of funds, turn to us to develop their finance management knowledge and skills.

Just as our members have had to reflect, regroup and respond, so too have we.

Our income is a mix of membership, events such as conferences as well as income from partnering and sponsorship. In a normal operating environment, we would expect to receive around £2m per annum in income and we employ c. 25 posts

In the week before the formal lockdown, we held our finance committee meeting via Zoom and presented the budget for 2020/21. The budget, though prepared on a pre-Covid basis, was adopted as a benchmark to measure ourselves against.

Our approach since then broadly falls under three headings:

1) Our mission:

- As well as fulfilling our objectives, supporting our members was vital to our sustainability going forward. Early feedback suggests that the CFG brand has been reinforced through our taking a considered, meticulous, practical, yet passionate leadership role with the sector
- Practically, we are testing digital approaches to delivering products that were formerly delivered on a face-to-face basis, such as events, meetings and this magazine.

2) Financial Viability

- We did not to run a myriad of forecast scenarios; the operating environment was too uncertain. Instead we undertook a brutal worse-case stress test of our finances based on:
  - Current cash balances (which in our case are a reasonable proxy for disposable reserves)
  - Assuming that we would continue to spend at the rate envisaged in the budget.

This test showed that whilst the need to address our financial position was urgent, we were not facing an immediate financial crisis.

- Early on we needed to ensure we could continue to deliver and maintain our services; any reduction in services without understanding the long-term consequences could have jeopardised the charity's future. We furloughed a small number of staff until June, which allows us to use the part-time furlough scheme from July.
- Prior to the latest Charity Commission guidance, we had prepared a Serious Incident report for the Charity Commission as the changes in our finances were likely to be above the then threshold for reporting.

3) Building a New Narrative

We now know that social distancing is likely to be the norm for a significant period, perhaps as much as 18 months. We are evaluating our business model and designing the organisation for the post Covid world. We have reviewed our likely income for the year and are working through what this means practically to our work.

Reportable matters

Judith Miller, partner, Sayer Vincenet

The guidance for Matters of Material Significance has changed. Here's how

The guidance for Matters of Material Significance sets out the duty of auditors and independent examiners to report to UK charity regulators. There are nine reportable matters, effective from 1 May 2017, which range from dishonesty and fraud to support of terrorism to conflicts of interest.

On 15 April 2020, three main clarifications and changes were made regarding how to report matters of material significance. They were:

- Reporting in a National Emergency: Simple disruption of the conduct of the audit/independent examination caused by the emergency alone is not reportable. National emergencies are not otherwise referenced but obviously the consequences of the pandemic may give rise to a report under the existing categories.
- Timing of reporting: This needs to be timely, either as soon as possible or at the point of signing/making the audit or independent examiner's report. Where the audit report is modified, has an emphasis of matter or references material uncertainty regarding going concern or the independent examiner has a duty to report, notifying the regulators takes place when signing and making the report

All other matters should be reported as soon as possible, particularly where there is a risk to the charity's funds; material fraud loss; concerns around integrity, or uncooperative or unresponsive trustees or senior staff when it comes to discussing reportable matters.

- Internal auditors: They have no legal responsibility to report but where a firm undertakes both internal and external audit, then best practice is for internal auditors to flag to external auditors any matters of material significance.

What does this mean for you?

These reporting responsibilities are for auditors and independent examiners not charities. However, the themes overlap with serious incident reporting. You should make yourself aware of reportable matters and be proactive in raising them with your auditor/examiner. Depending on the nature of the issue, you may have already reported a serious incident, or it may be advisable to write to the Regulators explaining how you are addressing any matters that will be flagged by your auditor/examiner.

Where might we see more reports to Regulators?

Given the impact of Covid-19 on the finances of many organisations, there will be an increased risk of material uncertainties regarding the going concern assumption. This will have consequences for the audit report and reporting to the charity regulators. Nothing has changed about this reporting requirement, there is just an increased chance of these reports.

More guidance has come from the SORP committee on explaining the impact of Covid-19 in the trustees' annual report and the potential for changes to the accounts. When it comes to going concern, budgets and forecasts should be prepared and assessed for at least 12 months from signing. You will need to pay attention to cashflow forecasts. Different future scenarios may also help trustees understand the implications of different risks crystallising.

You need to provide the board with sufficient information to understand whether there are any uncertainties regarding going concern, what these might be and their relative significance (material or not) to the organisation's ability to continue its work. If material, then the uncertainties will require disclosure in the report and accounts. Whilst the period is typically 12 months from signing, you do also need to consider whether there are any significant events later than this that can be foreseen now that might have an impact.

Talk to your auditors about these requirements and start early. It will also be important to keep the finance committee and the board in the loop so they have early warning.

Your questions answered

Richard Sagar,
policy manager, CFG

Financial management during the pandemic was the topic of a recent webinar with CFG, the Charity Commission and Crowe UK. Here we share some of the questions that were up for discussion

What is your view about using reserves to pay costs now and having reduced ones longer term?

For those charities with reserves we would recommend using them to cover some of the unavoidable costs and disruptions caused by Covid-19. But you should always consider what are the strategic levels of reserves to meet your strategy going forward in light of any changes to the operations because of Covid-19, in both short and medium term, and your ability to replenish reserves.

Making sure you've linked your reserves into your consideration of risk and what the future might hold. There isn't any minimum level of reserves that we would recommend, as it would depend on the business model of the charity. It would be reasonable for similar charities to have different levels of reserves. The Charity Commission guidance CC-19 has further guidance on these matters.

We have made a Serious Incident Report to the Charity Commission (CC) re COVID 19, which was then updated. The CC is happy with this reporting. Should it be mentioned in the TAR?

There is no obligation to talk about a Serious Incident Report in a Trustees Annual Report, as the two frameworks are separate. But depending on the issue itself you might want to include, for example if it had operational effects which were of wider interest you might want to include it in the Trustee Annual Report.

Should we make a provision for any redundancy payments whether or not there is a current likelihood of redundancy for staff eligible for redundancy payments?

This could be a consideration irrespective of the coronavirus obligation probable measurement. The general rule for recognising liabilities is set out in SORP and requires that a liability and the related expenditure must be recognised when the criteria of 'obligation', 'probable' and 'measurement' are met. If there are to be redundancies, they should be communicated to the individuals or class of individuals you are going to make redundant. Likewise, you can make a designation of your reserves that isn't a provision. This means it won't come out of the total reserves, but can be made available if and when it is needed.

Should we make a provision for any redundancy payments whether or not there is a current likelihood of redundancy for staff eligible for redundancy payments?

This could be a consideration irrespective of the coronavirus. This is the case if you have an obligation to make a provision or not and is covered in the standards about restructuring provisions in the SORP. It is not enough to have thought about the redundancy, it should have been communicated to the individuals, or the class of individuals that you are going to make redundant. It is important to note, that you can make a designation of your reserves that isn't a provision, so it doesn't come out the total reserves, it just designates it.

What is the timing for revisiting values of assets in legacies?

It depends on the policy you adopt for your legacy recognition, whether it's on probate or estate accounts etc. The pipeline figure also needs to be disclosed and its value updated right up to the date of signing your accounts.

Please see Crowe 'Financial reporting for charities' for more information on the sort of things you might want to consider RE Covid-19 and the valuation of legacies.

Should fixed assets such as property be revalued at this time for balance sheet reporting?

For functional properties, you would only need to revalue if there is a policy in place to do so, or for an operational perspective or an equivalent. If it does fall within this year, then you may want to do it for operational reasons. There will likely be valuation uncertainty, so you may not get the reassurance you are looking for.

Is there a tool available that will calculate our job retention scheme claim?

The government has created a job retention scheme calculator for this very purpose.

Contents

Dividends: under the knife

Nick Murphy, Head of Charities, Partner, Smith & Williamson Investment Management LLP

As companies seek to protect their cashflow, dividend payouts have been widely cut. What does this mean for charities, particularly those who need a regular investment income?

The situation we face today will likely prove to be quite different from previous recessions. Lockdowns prevent populations from consuming (and producing) as normal. Some industries, such as airlines, will see almost no revenues until more normal life resumes. A large number of companies have already cut dividends to protect cashflow or due to pressure from the Bank of England and more may follow.

Futures contracts, which allow investors to speculate explicitly on the level of dividend income from several major indices, suggest a fall of around 50% in FTSE 100 company dividends since the start of the coronavirus crisis.

At the end of March, prior to the announcement of most dividend cuts, the UK market had a dividend yield of around 5.5% on a historic basis (based on the last 12 months of payments). This compares to a long run average of around 4.2%. If dividend yields were to fall back to their long-term average that would represent a fall of 24% on last year's income.

Expectations on dividends vary considerably. Some industries are discounting larger levels of dividend cuts, including materials, energy, financials, consumer discretionary and some consumer staples. This feels intuitively right: materials is a highly cyclical industry, reliant on demand from China, while consumer discretionary shares will be hit as shoppers defer purchases.

The biggest contributors to UK dividends are the energy and finance sectors, which together comprise nearly 50% of total dividends. Oil prices fell to historic lows as demand dropped and we believe a recovery in oil prices is required for security of the dividend over the medium term. In the finance sector, we have recently seen the UK banking regulator, the Prudential Regulation Authority (PRA), instruct UK banks to cancel their dividends. Banks are generally well-capitalised, so this action is precautionary. Dividends are likely be restarted when the regulator is satisfied peak danger has passed.

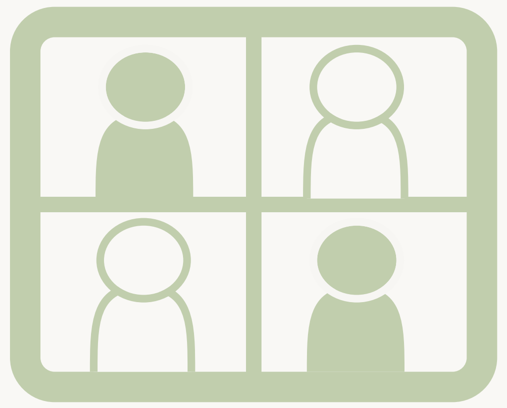
> *Expectations on dividends vary considerably*

Looking at this picture in aggregate leads us to believe that the UK market could see a cut to dividend income in 2020 of around 40% from pre-crisis expectations. However, charity portfolios will generally fare better because they are not just made up of UK companies. Many will also include global equities, plus fixed income and alternatives such as infrastructure and real estate. They are also actively managed, with more of the portfolio in companies with strong balance sheets and sustainable dividends. This may limit falls to as little as 15% though for safety, clients may want to budget for a drop of up to 30% this year.

Investors reliant on income might consider looking at two UK sectors we believe are better placed to weather a dividend storm. Healthcare and utilities companies yield around 4% and 5.5% respectively, both little changed from their long-term averages. Income investors should also consider looking globally where payouts may be more sustainable.

Cuts to dividends in the stock market also serve as a reminder of the benefits of diversification in a multi-asset portfolio. While government bonds look expensive on a historic basis, the security of their coupon (and principle) payments is reliable. Furthermore, some alternative assets such as infrastructure can provide relatively high-income levels, although some caution is necessary as yields on all assets, including property, come under pressure.

Managing remote workers



Maria Aguilar, director, The HR Services Partnership

How to look after staff during these challenging times

A few short months ago staff asking to work from home were often met with concerns by their employer. Will they be as productive? How can I keep an eye on what they are doing? And how will they keep in touch with the rest of the team?

That was before Covid-19 and the lockdown. Many people have now been working from home for several weeks, with some surprising themselves with how much they like it, whilst others have struggled with the lack of human contact; home-schooling; the workspace invading their home or the simple fact of not being able to get out and about as much.

Maintaining morale, helping staff with their wellbeing, and ensuring that people remain productive and able to work together to achieve the team's objectives have all become challenges for organisations. So how can managers maintain morale and look after their staff as well as the organisation during these challenging times?

People need practical support

When in the office we make sure that people have the right office chairs and desks, that they have enough stationery and a printer. Making do with the kitchen table and chair may be fine for a few hours or even a few weeks but will become uncomfortable after a period of time. As the prospect of working from home extends to many months, employers have an obligation to ask staff to conduct their own workstation assessment and discuss with them what equipment they may need. This might be as simple as allowing them to collect their office chair or other equipment from the office, for use at home.

> *Employers have an obligation to ask staff to conduct their own workstation assessment*

Remember why people come to work

Whilst paying the bills remains the key reason for working, many people enjoy the camaraderie and friendships of the workplace. A similar feeling can be achieved through remote working but it takes planning and effort. Arranging all team meetings using tools such as Zoom; Microsoft Teams and Skype can be a useful way for people to keep in touch. Learning can still take place through short regular 30-minute "coffee and learn" sessions. Also welcome might be stretch exercises after a team meeting, virtual quiz nights, socials and online games nights, but remember to always keep it appropriate and inclusive.

Support staff wellbeing

In the early part of the 20th Century what has now evolved into HR started as the company welfare officer. This role of looking after staff's wellbeing has come back to HR and line managers. There is a recognition that employers must design jobs and working environments that support staff wellbeing as well as supporting staff who struggle with their mental health. The way to do this is by spending time talking to staff and noticing when people might need help. Also important is to create an environment and relationship with team members that encourages them to raise issues.

Finally, be clear on your role. Managers (and HR) should signpost people to specialist services and support access to them, perhaps with time off or some financial support.

Contents

We have moved our events online while we adjust to the conditions created by Covid-19. Full access details will be provided upon booking your place. If you have any questions about our events and training programme in the meantime do get in touch with our team at events@cfg.org.uk.

CHARITY INVESTMENTS TRAINING

Date: Monday 6 July 2020
Monday 13 July 2020
Monday 20 July 2020
Monday 27 July 2020

Time: 11:00-11:40

Member rate: £50; non-member £75

Understanding your Investment Responsibilities is a foundation training course that takes place over four sessions. You will learn how to identify the fundamental drivers of the return from the main asset classes, consider their risk and performance characteristics and understand how they work in a multi-asset portfolio with a view to designing and enhancing your own investment policy statement.

Full programme and bookings
cfg.org.uk/CharityInvestmentTraining

ALTERNATIVE INCOME GENERATION

Date: Wednesday 16 September and Thursday 17 September 2020

Time: 09:30-11:40

Member rate: £95; non-member £116

With charities looking for new and diverse ways to increase their income, alternative forms of finance are becoming more popular. Hear from the experts offering insights into different ways of financing your charity, including collaborative income generation, social investment, trading and corporate partnerships, alongside practical sessions sharing tips on bid writing and demonstrating the value of what you do.

This is a one-stop shop to introduce you to alternative forms of income and how to take a step towards introducing them into your organisation. It will be a chance to make connections with those offering some of these services and those already achieving success in new ways.

Full programme and bookings
https://www.cfg.org.uk/

TECHNICAL UPDATE CONFERENCE

Date: Thursday 24 September 2020

Time: 09:30-16:00

Member and individuals rate: £95; non-member £116

Aimed at finance directors, finance managers, CEOs and trustees, this comprehensive conference brings you all the essential technical developments in charity finance that impact your organisation, ranging from fraud to VAT and tax to accounting and reporting. Our expert speakers will share updates on all the big issues in the sector, as well as all the important regulatory updates you need to know in one concise day, with the opportunity to discuss them with your peers in the sector.

This event should have taken place in Cardiff but will now take place online.

Full programme and bookings
https://www.cfg.org.uk/AltIncomeGeneration20

LARGE CHARITIES CONFERENCE

Date: Monday 28 September

Time: 09:30-12:40

Member rate: £95; non-member £116

The first half of 2020 brought with it a set of unprecedented challenges caused by the COVID-19 crisis and left vast portions of the economy in financial trouble including Charities, even large ones. Decreased funding, increased demand on services and operational issues due to social distancing have caused many charities to re-evaluate the way they work.

This online conference is specifically designed as a platform for large charities to discuss the issues they are facing and how can they ensure effectiveness and efficiency in the rapidly changing social and financial landscape.

Our speakers will bring you their expert updates through webinar sessions, and delegates will have the opportunity to ask questions and discuss the issues in small groups at the end of each session.

Full programme and bookings
https://www.cfg.org.uk/LargeCharitiesCon