INSPIRING
FINANCIAL
LEADERSHIP

Charity Finance Group Handbook

THE PINK BOOK 2017

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FOREWORD

"Welcome to CFG's Pink Book, in this our 30th anniversary year"

Welcome to CFG's Pink Book, in this our 30th anniversary year. We hope that you find this resource, tailored specifically to the need of members, useful and that it delivers content on the things you have highlighted as most important to you. We have worked closely with a wide range of expert volunteers and your peers to bring you insights, advice and practical tools that you can refer to throughout 2017.

In 1987, we started life as a small network of the most senior finance professionals from some of the larger charities. We've developed over the last 30 years into a trusted provider of resources and training and a strong influential voice for the sector. As we approach the next 30 years it is clear that there is demand from our members to provide an even stronger leadership voice; that for financial leadership to drive the greatest impact in our charities, CFG has to express, with confidence and commitment, its voice on issues that impact charity finance. We hear you. That's why our strategy as we start our 30th year is, rather fittingly, leadership.

The start of 2017 is not just an important point in CFG's history – significant events have taken place, which have the potential to fundamentally shape what happens in our operating environment over the coming months and years. Throughout last year we had a growing sense that change was coming but the result of the referendum and the US election took many by surprise.

As a sector, it is our role to give a voice to the voiceless, the forgotten and the disenfranchised. Yet it has been alarming to watch fear and hardship being exploited and for the narrative to become so divisive. It is CFG's responsibility to address those matters which are likely to either inhibit or enhance our ability as a sector to effect social change.

Charities and social organisations cannot be left behind as the UK settles some of the biggest questions for a generation and CFG will endeavour to ensure that key financial and operating issues are not kicked into the long grass.

Alongside these seismic changes, the criticism levelled at the sector in recent years has continued, largely unabated. This year the focus has been on fundraising practices and the use and protection of data. Whilst the topic of fundraising itself is not core to CFG's activities, and we have remained neutral on the issues surrounding its regulation, undoubtedly there will be a financial impact on our member charities as they adjust to the new ways of working. In this respect CFG must and will speak up on your behalf.

Charities are still struggling with how to push a more positive narrative and to articulate their impact. While we've seen the launch of some great initiatives and there is evidence of better co-ordination in responding to critics in a more consistent and authentic way, we still have far to go.

Over three decades, we have been at the forefront of increasing financial capability within charities. Looking back, the sector was a bit of a 'Wild West' in accounting terms.

"The role that financial management plays in being effective is at risk of being undervalued – we're here to make sure that it gets the recognition it deserves."

CFG played a significant part in its transformation, both for large and small charities.

As an organisation we aim to lead by example; seeking to understand and articulate our impact during the year. We believe that for the charity sector to transform and be as effective as it can be, we need to inspire new thinking. We believe that by elevating the status of financial management within organisations, and ensuring internal and external people understand its important position, charities will be equipped to deliver the best possible impact for their beneficiaries. You – our members – are a key part of that journey and mission.

Charities who are trustworthy, effective, transparent and accountable will earn and sustain the support the public generously give, and retain the confidence of wider stakeholders in the work they do. Policy makers and funders are starting to commit to supporting effective charities, but the role that financial management plays in being effective is at risk of being undervalued – we're here to make sure that it gets the recognition it deserves.

What you do is unlock potential. It is our aim to help you extract the greatest possible impact from every pound you receive; not just in 2017 but for as long as your services are needed into the future.

Caron Bradshaw
Chief Executive Officer,
Charity Finance Group

Ian Theodoreson
Chair,
Charity Finance Group

SECTION 1: CHARITY FINANCE GROUP

THE TIMES THEY ARE A-CHANGIN'

"Regardless of how things will pan out, my interactions with the organisations I work with show that there is a need to revisit and rethink many of the accepted assumptions."

The only certainty for charities in the year ahead is that it will be uncertain. CFG's Special Advisor Pesh Framjee looks ahead to 2017, and explores what charities need to be doing now to build resilience.

2016 was a year of change and upheaval for charities and 2017 will be a year of even more uncertainty and change. This comes in many shapes and forms and goes beyond political change. There are new laws and regulations on fundraising, new expectations from different stakeholders, increasing demand, a changing funding landscape, foreign exchange volatility, cost escalation and much more.

There is too much conjecture and crystal ball gazing on all the downside risks but the reality is that we do not know what the reality will be. However, it is important to be prepared and think carefully of the implications. Most charities have recognised that it is not business as usual and there are new challenges that require specific attention. The task of setting priorities remains as difficult as ever; matching the demands to satisfy short-term needs against pressure for the resources required to achieve long-term solutions.

The operating environment is becoming even more demanding and plans for future strategic development will have to take into account a number of new factors. It is a world in which priorities need to be constantly reassessed and organisations need to be nimble and flexible. Knowledge must not only be accurate and relevant but also attuned to analysis from different perspectives.

Uncertainty arises from many issues and this has been compounded by the rise of political movements which set national interests in a false antithesis to global collaboration. Charities will have to work hard to try and change attitudes and to bridge divides as new chasms seem to be opening all the time.

Recent pronouncements from the US do not bode well for the sustainable development goals, humanitarian aid, social cohesion and civil society more generally. In the UK, the Government and the media will be focusing on one big issue, and the space for charities to get their voice heard will be limited, but the sector has much to offer and should ensure that it is saying the right things to the right people at the right time, without unwarranted concerns about gagging clauses. This issue has been well discussed and hopefully put to bed.

I am sometimes asked why charities need to keep trying to grow income. The answer should be self-evident: the need for their services, be it in the UK or worldwide, is ever increasing. Charities will have to deliver more and better, and more resource mobilisation is needed. Most charities have recognised the fundraising and data protection environment is changing and there are many articles in this book that discuss the various changes expected in 2017. Some of these will happen and others may not. Regardless of how things will pan out, my interactions with the organisations I work with show that there is a need to revisit and rethink many of the accepted assumptions.

Governance and decision making

During periods of uncertainty there is need to carefully examine some of the projects and programmes that have been planned with a focus on both short and longer-term timeframes. It is important to recognise that exercising rigour and care in decision making is not the same as being ponderous, and charities need to be nimble and agile in their decision making. This may require changes to delegations, monitoring protocols and to reporting and decision-making procedures. Governance may need to be revisited.

Governance structures need to be well balanced and allow proper and swift decision making. Boards must have the right information that gives them knowledge to be able to add value. Different skill sets may be required and ensuring that there are the right competencies within Boards and management is really important. Management have moved from being administrators to leaders and Boards must become sources of leadership – delegating without abdicating responsibility. Are Boards and management acting as catalysts for change when it is needed? Is empowerment balanced with accountability?

Strategy and scenario planning

As strategies become more dynamic, focused on the short term, and contain more analysis, there will be a need to react to outcomes that are different to earlier predictions. This means regular monitoring and measurement of progress against the strategy. The strategy must be able to deal with uncertainty and strategies and tactics have to be developed on the premise that several different outcomes and scenarios are possible.

There is a need to put values and analysis on different scenarios and this requires out-of-the-box thinking from different perspectives. Horizon scanning will be even more important. However the focus on new scenarios and the immediate issues should not mask important long-term trends or undervalue relevant existing strategies.

Successful organisations are developing action plans for different scenarios by setting and monitoring trigger points along with trend analyses. They are looking beyond the obvious – considering both direct and indirect drivers and short and long-term implications.

Risk management needs a rethink

There is increasing awareness that remote events can have a significant impact. This casts some question marks over the way organisations have traditionally identified risks and adopted procedures to manage them.

Are the risks that have been identified the right ones? Are the responses and actions to manage them appropriate for the new times? There is greater recognition that probability has less value for risks that occur outside the norm.

Risk management needs an overhaul in turbulent times, especially when events are rare or unprecedented, where the rules are unknown or rapidly changing or where causes are driven by external factors beyond the organisation's control.

Fear, or even doubt of the uncertain can lead to missed opportunities and organisations need to consider the risks they need to take to create value, as well as the risks they need to take to protect assets.

Are the ways of doing things fit for purpose?

There is always benefit in taking a good hard look at how efficiently activities are carried out and services are delivered. Sometimes, peripheral and non-core activities have quietly taken seed and diverted resources from core activities.

As funding streams change and cost structures evolve, it is important to consider whether the fundamental operating model can be improved. Strategic alliances, collaborative working and mergers need to be on the agenda. There are no stereotype answers, but try and avoid dismissing things based on previous and sometimes biased analyses. New times require new responses.

Reserves and liquidity

As income levels are threatened, cash flow and reserves management inevitably demand more attention. Charities should reassess their reserves policy and ensure it meets operational needs. Unfortunately many reserves polices are often created to justify the existing level of reserves rather than what is realistic and operationally necessary. The reserves policy should link with the risk management and forecasting process. This may require a rethink about why the organisation needs reserves and what's the appropriate level.

SECTION 1: CHARITY FINANCE GROUP

> **"Successful organisations are developing action plans for different scenarios by setting and monitoring trigger points along with trend analyses. They are looking beyond the obvious – considering both direct and indirect drivers and short and long term implications."**

The continued uncertainty and volatility of income has dramatically increased the exposure to liquidity risk; underlining how vital it is to have robust assumptions behind forecasts.

Working it through

Charities need to avoid knee-jerk reactions whilst recognising that change is inevitable. Necessary change needs to be managed whilst maintaining the momentum and clarity of purpose. There are a number of steps before launching into responses to matters such as Brexit, new data protection requirements or any of the many drivers of change that the sector will be facing. Simplistically, these can be broken into three key areas:

Early thinking stage – This requires identifying the right people to think about the key uncertainties that can impact the organisation. Remember to consider direct and indirect drivers and short and long-term implications. Don't be too influenced by the past, and be ready to look beyond the obvious, identifying both risks and opportunities.

Consider the strategic choices – This requires revisiting the SWOT and PEST analyses that may have driven earlier strategic plans and tactics. Consider the different scenarios, the strategic choices and options for action. Are the right structures, resources and procedures in place to first make the right choices and then to capitalise on them? There will need to be options for actions and ways of identifying warning signs and alerts as scenarios become reality. This stage requires much analysis and appraisal of the choices that are available and the resources needed to implement them.

Taking action – As the organisation implements its plan and tactics there will be a need to have in place a strong change-enablement framework that considers both the organisational and people transitions that may be necessary. There is a need to remain nimble and flexible and recognise that the first two stages may not have come up with the right answers, and that the options and actions may need to change accordingly.

The key is to think carefully about the future and be ready to face challenges and grab the opportunities as they arise. The articles in this publication will help charities to think about how they can do this.

Pesh Framjee
Head of Not for Profit,
Crowe Clark Whitehill

MAKING THE VOICE OF CHARITIES HEARD IN 2016

> **"CFG was the first infrastructure body to prepare the sector for Brexit with a comprehensive brief on the key issues that would impact charities."**

CFG's policy team works to represent the views of our members and of the wider charity sector to Government, regulators, policy shapers and decision makers at all levels. Andrew O'Brien reviews the team's key achievements in 2016.

It is the role of the policy team to keep on top of the latest developments and share news on those developments with our members, as well as consider how decisions made by government regulators may impact the charity sector, with a view to getting the best possible outcomes for charities.

Our goal is an operating environment in which charities can be as effective as possible.

Brexit and a new government

2016 was a year dominated by two political events which will shape our sector for years to come. The first, and most prominent, was the vote by the UK to leave the European Union. The second was the rise of Theresa May to the role of Prime Minister following David Cameron's resignation. Both of these have occupied considerable amounts of time in Government and in the media, which has often hampered our sector's ability to get our concerns listened to by key stakeholders.

That being said, the decision to leave the European Union has significant opportunities for charities in areas such as irrecoverable VAT, reforming state aid rules and improving the distribution of Government contracts and grants. A new Government also carries with it a chance to reset our relationship with Government and get them to look on long-standing issues in a new light. It has been CFG's focus in 2016 to be ambitious for the sector, whilst ensuring that potential risks to the operations of charities are thoroughly considered by government.

CFG was the first infrastructure body to prepare the sector for Brexit with a comprehensive brief on the key issues that would impact charities. The briefing has been downloaded hundreds of times by charity members and has also been influential within Government. We have met with the Minister for Civil Society and the Secretary of State for Culture, Media and Sport to discuss how the Government can ensure that Brexit results in a good deal for charities. We will continue this work in 2017.

Shaping the future of charity reporting

An extensive research exercise on the future of the Charities SORP took place last year, undertaken by the SORP-making bodies. CFG responded robustly on behalf of the sector, identifying concerns about the addition of further disclosures within the SORP and their potential impact on trust and confidence in charities.

Our Policy and Public Affairs Officer, Heather McLoughlin, organised events across England and Wales so that our members could get involved, with around 100 charities taking part in our roundtable discussions kindly supported by CFG's corporate subscribers.

Members also supported our submission to this consultation and the importance of shaping the future of charity accounts by making their own individual submissions in support of CFG. We estimate that over 100 members used CFG's template to respond to the research exercise and this can only have strengthened our voice. We await the outcome of this exercise in 2017.

For a full report on the CFG's response to the consultation, see page 37.

Apprenticeship Levy

A significant area of work for CFG's policy team, led by our Policy and Research Manager, Anjelica Finnegan, has been the government's proposed Apprenticeships Levy which is due to come into effect in April 2017. This policy has the potential to cost the sector hundreds of millions of pounds over the coming years unless it is amended. As a sector, we have not traditionally hired apprentices and the restrictions on how the levy fund can be spent, the lack of charity-specific courses and the inability of charities to transfer funds between them means that there are significant risks for charities.

We have repeatedly met with Ministers and officials to make the case for the sector, and we achieved an important success for charities by convincing the Government to extend the amount of time that charities have to spend their Apprenticeship Levy funds from 18 months to 2 years. This will give charities more time to act and should keep more funding within the charity sector. We will be doing further work in 2017 to make sure that charities are supported in implementing the levy.

Gift Aid

After many years campaigning, we finally secured important changes to the Gift Aid Small Donations Scheme. While these were not as comprehensive as we would have liked for charities, the Small Charitable Donations and Childcare Payments Act will drop previously restrictive eligibility criteria for accessing the scheme and ensure that new charities and charities that do not regularly claim Gift Aid can also benefit from top-up payments on bucket collections. Contactless payments, a suggestion put forward by CFG and other infrastructure bodies, was also accepted as part of the scheme in future, ensuring that the scheme keeps pace with technology.

The main Gift Aid scheme continues to be unnecessarily complex for many charities and CFG undertook significant work in 2016 to influence Government as part of a consultation on donor benefit rules. We have submitted proposals for benefits to be calculated on the basis of cost rather than value to the donor, which is often hard to estimate, as well as simplifying thresholds so that benefits on small donations were more generous. Changes to donor benefits are due to take place in 2017, and CFG will continue to work hard to improve the scheme for charities.

Bank de-risking

Charities are finding it increasingly difficult to access financial services – a trend that we identified back in 2015. This is due to a combination of factors including uncertainty around counter-terrorism legislation, US sanctions and the risk appetite of banks. We have been working with charities to support access to banking channels so that they can continue to do vital humanitarian and peace-building activities. As part of a global coalition of charities, CFG successfully campaigned for the Financial Action Task Force (FATF) to change its Recommendation 8 on charities to clarify that charities are not particularly vulnerable of terrorist or criminal abuse. We hope that this will feed through to the policies implemented by the UK Government and banks in relation to the sector and ensure that a proportional approach is taken so that access to banking services for charities is maintained.

Devolution

A continued focus for all parties is how more power can be distributed to local communities. In many ways this is a welcome initiative, but so far there has been minimal engagement between the sector and the Government. In collaboration with NAVCA, Locality and Children England, we convened a Devolution Summit which aimed to bring together key people across the sector to discuss this issue and set out the sector's aspirations. The resulting Declaration of Principles has been used for engagement with Government and highlights the need for devolved governments to be properly resourced, as well as accountable to their local populations.

Andrew O'Brien
Head of Policy and Engagement, Charity Finance Group

SECTION 1: CHARITY FINANCE GROUP

ARE YOU GETTING THE MOST FROM YOUR MEMBERSHIP?

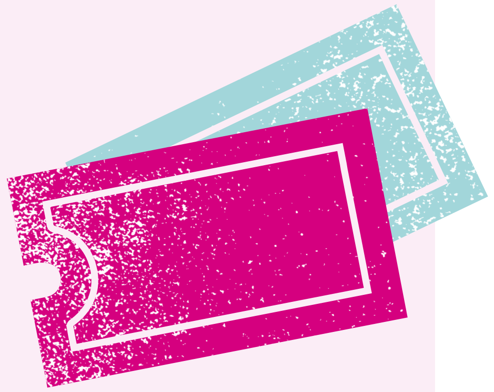
Whether you're a small, medium or large charity, being a member of Charity Finance Group (CFG) supports you and your teams in developing better financial management of your organisation. But are you making the most of your membership? CFG's Richard Molyneux provides an overview of all member benefits.

CFG campaigns on behalf of our members and the wider sector. In the last 12 months, we have convened SORP consultation workshops across the UK, and lobbied on issues including Apprenticeship Levy, Insurance Premium Tax and the proposal to charge charities for the Charity Commission. In 2016, we also launched our Small Charities Programme to build financial skills where they're needed most.

As a CFG member, you'll be part of a network of 1,400 charities and 3,000 finance professionals in the voluntary sector with one common objective – to put financial management at the front and centre of effective charity leadership.

MEMBER BENEFITS INCLUDE

- Free Members' Meetings in London and across England and Wales;
- Discounts on CFG conferences, events and training;
- Big savings on recruitment advertising. Members can save up to £1.5k on advertising through the CFG/Third Sector Jobs Board and advertise Trustee and Treasurer roles free of charge;
- Join our four special interest groups: Large Charities, Grantmaking organisations, Overseas charities and Community Accountants;
- Access to CFG's helplines run by our corporate supporters, offering members free advice on:
  – Accountancy and Tax
  – Pensions
  – Legal: General advice
  – Legal: HR and Employment
  – Property
  – Insolvency;
- Finance Focus monthly magazine, a quarterly Economic Outlook Briefing and of course, CFG's Pink Book;
- Unlimited access to CFG's online document and publications library;
- The opportunity to contribute to policy consultations. CFG's policy team tackles the subjects that affect you and your charity's ability to operate. Members are invited to contribute to policy consultations and are kept informed about a wide range of issues including regulation, SORP, VAT, tax, pensions, banking reform and social investment;
- Add additional members of staff and Trustees to your membership free of charge



NETWORKING

We offer members regular meetings across the UK, with expert speakers on the topical issues in the sector. They're also a good opportunity to meet peers, and support you and your team's CPD.

CFG's full events programme is available online: **http://www.cfg.org.uk/events**

If it's difficult to get to a meeting in person, you can join our online community. We have a dedicated LinkedIn group: **https://www.linkedin.com/groups/7465624**

EVERYONE BENEFITS

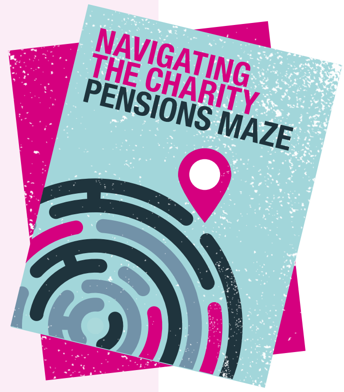
Remember that CFG membership is for the whole organisation, meaning that every member of staff can benefit. You can add as many additional contacts in your organisation as you wish. They don't have to work in finance either – colleagues in HR and IT, even Trustees and CEOs can be added.

CFG will provide them with unique website login details, giving them access to CFG's online document library, the ability to book on to members' meetings and discounted conferences and events.

To add additional contacts to your membership, simply email: **membership@cfg.org.uk**

PUBLICATIONS AND SURVEYS

CFG publishes a variety of guidance, reports, survey findings and publications dealing with matters relevant to you. These are often produced in partnership with our corporate partners and electronic copies are sent to members on publication. Our most recent publication is *Navigating the Charity Pensions Maze.*



POLICY FORUMS

CFG runs several policy forums that deal with specific operational or policy issues.

Current groups include the Banking Forum, Technical Accounting Forum and Pensions Forum.

To make the most out of your CFG membership, we encourage you to explore all the benefits:

- If you haven't before, try out CFG Members' Meeting
- Attend a conference or training workshop
- Browse our document library
- Join a special interest group or forum
- Read our latest publications and monthly magazine
- Use the helplines
- Save on recruitment costs with the Third Sector Jobs Board

But most of all, ***let us know what you think!*** *The membership team is here to listen to your feedback and guide you through the many benefits:* ***membership@cfg.org.uk*** *or call* ***020 7871 5467****.*

Richard Molyneux
Head of Membership, Charity Finance Group

CFG EVENTS PROGRAMME 2017/18

CFG runs a wide range of events and training courses to support you and your team – for more information and to book, visit www.cfg.org.uk/events

We work with speakers from both the corporate and charity sectors who bring a wealth of expertise and enable us to put together engaging programmes that meet your needs.

Our events offer great value for money, and as part of your charity's membership of CFG, all staff across the organisation are able to benefit from reduced rates – look out for early bird offers for our conferences, providing even greater discounts for members. All CFG events can also contribute towards your Continuing Professional Development plan.

CONFERENCES

Our regional and topic-specific conferences form the basis of our events programme with our flagship event, the Annual Conference, taking place in May each year.

Conferences in 2017/18 include:

APPRENTICESHIP LEVY CONFERENCE

27 APRIL 2017, LONDON

A new event to our conference calendar, delegates will gain an overview of how the apprenticeship levy will work and how it might affect your charity. There will also be practical sessions on how to integrate apprentices into your workforce, and how your charity can become a registered training provider.

ANNUAL CONFERENCE

18 MAY 2017, LONDON

The Annual Conference is the must-attend event of the year for all finance professionals working in the charity sector and offers a fantastic opportunity to hear from inspirational speakers, gain practical advice, keep in touch with the latest sector updates, browse the conference exhibition and network with your peers. www.cfg.org.uk/ac17

VAT AND TRADING CONFERENCE

19 SEPTEMBER 2017, LONDON
14 NOVEMBER 2017, BIRMINGHAM

Focusing on current issues around charity VAT and trading this event covers topics including fundraising and zero-rated activities, partial exemptions and recovery, using a trading subsidiary, as well as the latest VAT updates.

LARGE CHARITIES CONFERENCE

27 SEPTEMBER 2017, LONDON

This conference brings together senior finance professionals from charities with an income of over £10 million to debate key issues affecting large charities and provides an opportunity to engage with peers on challenges and best practice.

GIFT AID CONFERENCE

4 OCTOBER 2017, MANCHESTER
25 JANUARY 2018, LONDON

This popular conference covers key aspects of Gift Aid and offers practical advice on topics such as donor benefits, online giving and intermediaries, and audit and record-keeping.

SOCIAL INVESTMENT CONFERENCE

29 NOVEMBER 2017, LONDON

Exploring what the future looks like in the social investment sphere, this conference covers demonstrating the value of your work and social investment tax relief.

RISK CONFERENCE

6 DECEMBER 2017, LONDON

Sessions at this conference will address practical and strategic elements of risk management, as well as considering other areas of risk that impact charities.

COMMUNITY ACCOUNTING CONFERENCE

8 FEBRUARY 2018, BIRMINGHAM

The annual Community Accounting Conference provides information, support and guidance for community accountants and those delivering financial management, accounting support and payroll services to small charities.

INVESTMENT CONFERENCE

22 FEBRUARY 2018, LONDON

Investment Conference 2018 includes roundtables, interactive presentations and discussions facilitated by CFG and investment management corporate supporters, on some critical investment issues.

IT CONFERENCE

8 MARCH 2018, LONDON

Aimed at charity finance and IT professionals, this conference provides advice, guidance and updates on a wide range of technology and data issues, including cyber security, data management and system integration.

REGIONAL CONFERENCES

Our regional CFG conferences take place in Leeds on 4 July 2017, in Cardiff on 22 November 2017 and in Birmingham on 1 February 2018. The conferences provide valuable updates relevant to the charity sector as a whole as well as discussing key issues at a regional level.

TRAINING

Our training courses take place in all four membership regions – London and the South East, the Midlands, the South West and Wales and the North of England. We run a large number of training courses at varying levels and covering a range of topic areas, from charity accounting and investment to IT and data protection, tax and trading and HR and legal. So, whether you're new to the charity sector or well-established in your role, there's something for everyone.

FOUNDATION INVESTMENT TRAINING

19 APRIL 2017, LONDON
11 JULY 2017, LONDON
17 OCTOBER 2017, LONDON

ADVANCED INVESTMENT TRAINING

5 JULY 2017, LONDON
8 NOVEMBER 2017, LONDON

FOUNDATION CHARITY FINANCE

24 APRIL 2017, LONDON
9 MAY 2017, MANCHESTER
12 SEPTEMBER 2017, BRISTOL
26 SEPTEMBER 2017, MANCHESTER
28 SEPTEMBER 2017, BIRMINGHAM
18 OCTOBER 2017, LONDON

ADVANCED CHARITY FINANCE

20 JUNE 2017, LONDON
22 JUNE 2017, MANCHESTER
1 NOVEMBER 2017, BIRMINGHAM
21 NOVEMBER 2017, LONDON
28 NOVEMBER 2017, MANCHESTER
5 DECEMBER 2017, BRISTOL

FINANCE FOR FUNDRAISERS

19 APRIL 2017, LONDON

FINANCE FOR DECISION-MAKING

4 MAY 2017, LONDON

DATA PROTECTION

6 JUNE 2017, LONDON

PREVENTING FRAUD

7 JUNE 2017, LONDON
31 OCTOBER 2017, BIRMINGHAM

TRADING AND THE LAW

14 JUNE 2017, LONDON

FINANCE FOR NON-FINANCE MANAGERS

21 JUNE 2017, LONDON
8 NOVEMBER 2017, BIRMINGHAM

FAMILY FRIENDLY RIGHTS, GENDER EQUALITY AND GENDER PAY GAP REPORTING

13 SEPTEMBER, LONDON

TRANSFORMING YOUR FINANCE FUNCTION

12 OCTOBER 2017, LONDON

AUDIT COMMITTEE TRAINING

8 NOVEMBER 2017, LONDON

CLOUD COMPUTING AND CYBER SECURITY

10 OCTOBER, LONDON

NEW FOR 2017

We also have a number of new courses running in 2017/18:

- Rethinking Risk
- Finance for Decision-making
- Preventing Fraud
- Data Analysis for Finance Professionals

INSPIRING FINANCIAL LEADERSHIP

The IFL programme is designed to enable charity finance professionals to develop the skills and expertise to take them to the next stage of their financial leadership journey. The popular nine-module breakfast course, developed by Cass CCE, Charity Finance Group and Sayer Vincent, runs annually and provides an opportunity for confidential peer-to-peer learning and developing an ongoing support network for the future.
The programme will run in Autumn 2017. More details online: www.cfg.org.uk

MEMBERS' MEETINGS

Our programme of regular meetings provides key opportunities for members to network and exchange views and experiences. All members' meetings are free of charge – we hold eleven meetings a year in London, and three each year in the North, Midlands and South West & Wales. Meetings cover issues from VAT, tax, investment, risk and IT through to legal matters and HR.

Visit http://www.cfg.org.uk/events/members-meetings.aspx to find out when the next meeting in your region is taking place.

CFG'S BOARD OF TRUSTEES

CFG's Board of Trustees is responsible for running the organisation and steering its strategic development.

CFG's constitution allows for a maximum of ten trustees, seven of whom must be CFG members, elected by other members. The other three can be co-opted by the Trustees to fill any skills gaps they have identified.

Each elected Trustee serves an initial three-year period, following which, they can stand for election for a second three-year period. After that, they must stand down for a year before being eligible to stand again. The Chair must be elected by the Trustees from amongst their number.

The full Board normally meets five times a year, one of which is a designated strategy day.

The list below is current at 1 April 2017. An updated list is available online on the CFG website: http://www.cfg.org.uk/about-us/whos-who/our-board-of-trustees.aspx

SECTION 1: CHARITY FINANCE GROUP

OUR WORK WITH CORPORATE MEMBERS

Charity Finance Group works with a range of charity finance experts from the corporate sector. Our corporate members include accountancy firms, lawyers, banks, investment advisors, HR firms, insurance brokers and IT consultancies. It is thanks to their expertise and support that we can offer charity members unrivalled insight, guidance and benefits, says CFG's Partnerships Manager, Dawn McNish.

We wanted to start off by saying thank you to our corporate members for helping us make the last 12 months so successful for our membership. As an organisation we rely on our 130+ corporate partners to provide us with invaluable resources, including:

- Speakers for our meetings and conferences;
- Content for our publications;
- Running a variety of training courses;
- Providing venues for our events;
- Sponsoring our events, which allows us to keep our delegate rates low;
- Providing content for publications and our monthly magazine Finance Focus;
- Hosting members' meetings and seminars;
- Exhibiting at conferences to showcase professional support and services to member charities;
- Sponsoring and hosting tables at our annual fundraising dinner;
- Supporting members with free helplines.

Our corporate members cover a range of areas, allowing us to ensure that the needs of our membership base are covered. Their combined skills and expertise make a hugely significant contribution to our work, and it's because of their support that we can offer member charities the range and quality of services that we currently do.

Neutrality is important to us – it allows our members to make their own informed decisions when it comes to choosing a corporate partner with whom to work. Our aim is to provide our members with the necessary information and tools they require to choose the right advisors and suppliers for the job. If you're a charity member looking to work with a corporate member, we recommend looking through our list and viewing their profile on our website in the first instance. You will find more information on the services they provide, whether they meet the requirements of your organisation and who the best person is to contact.

As a CFG corporate member, you will access various benefits including networking opportunities with our extensive membership base at our meetings, conferences and events. Our corporate members also have a great opportunity to communicate to the charity sector and support members in the running of their organisations. If you're interested in applying to be a corporate member, or simply want to explore ways in which we can collaborate together, please contact Dawn or Alec from our corporate partnerships team.

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02

WHAT'S ON THE HORIZON FOR 2017?

IN THIS SECTION

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TOUGH TIMES, TIME TO BE TOUGH

If 2016 was a year of unexpected developments, it is 2017 where their implications begin to be played out and charities will not escape the winds of change. Nor should they, says Duncan Shrubsole from Lloyds Bank Foundation. As mission-driven agents of social progress, charities should be resilient and adapt, and capitalise on the opportunities.

National turmoil

The road to and implications of Brexit will dominate the political and policy agendas with a range of direct impacts for charities, such as loss of EU funding streams, difficulty retaining EU staff, or where EU policy has been particularly important for certain charities and agendas, such as those focused on the environment.

Brexit will bring a flurry of indirect impacts for charities too. The uncertain economic consequences could have significant impacts on the economy and public spending nationally and locally and inflation may increase costs. And this is against the backdrop of the longest squeeze on personal incomes and finances for decades. Brexit will also cause significant constitutional uncertainty in Scotland and Northern Ireland.

Whilst Brexit is the headline act, Theresa May has bold ambitions to reshape domestic policy to make the 'country work for everyone'. A commitment to mental health, new laws on domestic abuse and to the notion of a 'shared society' are good first signs – and indeed a tribute to years of campaigning by many charities – but they remain very light on substance. There are a whole series of policy changes underway from the Coalition and Cameron days with major implications for charities and their clients, such as: the rollout of Universal Credit – including the range of cuts contained within – changes to ESA, PIP, Housing Benefit and funding for supported housing, a radical prison reform agenda against the background of soaring levels of violence and self-harm and of course the massive challenges facing the NHS and social care.

The ever-present reality for 2017 and years to come will be continuing extreme pressures on public spending, to which Brexit will only add new dimensions. The warnings from respected think tanks have piled up. The IFS[1] highlights how cuts to day-to-day public spending are due to accelerate despite the tax burden continuing to rise. By 2019-20 departmental spending is expected to be 13% lower than it was in 2010 after inflation is taken into account, with cuts of about 40% to the justice, business, culture and environment budgets, and still further cuts are needed to eliminate the deficit. Across the board, public services are creaking and cracking, with IfG and CIPFA[2] identifying hospitals, adult social care, police, prisons and schools as all being at breaking point.

The future is local

Whilst the goings on in Whitehall and the White House are dramatic and captivating, local has perhaps never been more important. It was the economic prospects on people's high streets that were key determinants of how many people voted – from concern at immigration in Boston in Lincolnshire driving the highest leave vote, to the closure of factories in Michigan making Trump President. Charities' role in understanding and supporting their 'place', in bridging divides where they exist and promoting cohesion and the integration of different communities will be particularly important. After all, the vast majority of charities are small and local – embedded in, delivering for and supported by local communities.

The spending squeeze has long hit local authorities hardest too. Already cut by 40% since 2010, the LGA[3] highlights a funding gap for adult social care of £2.6bn by 2020 and £5.8bn for councils overall. Whilst to date cuts in many local authorities have disproportionately hit services used by vulnerable minorities, particularly in key cities like Liverpool and Birmingham, severe spending cuts to all council-funded services must be expected. And this will have a significant impact on charities working in any area which, however important, are not part of councils' statutory duties[4]. New measures to allow councils to retain business rate income from 2020 could exacerbate regional variations and new funding formulas for police and schools will further unsettle.

In trying to deliver more with less, many councils have moved away from localised grant funding to contracting and commissioning at ever larger scales. Lloyds Bank Foundation's *Commissioning in Crisis* research[5] and the experience of those we fund highlight the manifold challenges with too little understanding of need. Inappropriate specifications and procurement processes directly and inadvertently penalise small and medium-sized charities and communities and individuals lose out too with more standardised, less responsive services. The Government has recognised some of the challenges[6] with a new Crown Commercial Services Representative and a Commissioning Kitemark, as indeed have some commissioners, but in many areas the rush to ever bigger, longer, broader contracts is continuing at pace. Whether these reform proposals will make a difference and whether smaller charities will be able to survive to pick up the pieces when big contracts fail are key questions for the year ahead.

Overall much will depend on public pressure and whether local Government – including the new metro mayors who are being elected this year – can pull down more powers and secure greater resources from whatever source.

So how should charities respond?

There are some particular issues facing the charity sector from the new fundraising regulator and around public trust. But they are very much a large charity issue – they really do not affect most of the 97% of the sector with a turnover of under £1m, and indeed pale in comparison to the socio-economic challenges outlined above.

Charities have been incredibly resourceful in the last few years but are going to need to continue to be even more so. A charity's fundamental purpose is to be there for those it serves, clear that what it offers is good, effective and adds value. The charity has to serve the mission, not the other way around. This will require planning ahead and leaders focusing on key questions such as how to achieve the biggest impact for clients or cause. That may prompt some tough answers, including different ways of working, when to go for or turn down funding, or even whether resources could be better used through merger or closure. Exploring new income streams will be particularly important, providing they serve the mission. And charities need to ensure they communicate effectively and regularly with existing and new audiences, emphasising the role, value, impact and distinctiveness of what their charity offers, including using the new opportunities that digital provides. Taking stock regularly of all the options with staff and Trustees is vital, but charities also need to look after their volunteers and staff.

In response to commissioning, charities should try a three pronged approach: challenge inappropriate commissioning; put themselves in the best position for those contracts it makes sense to bid for, including through effective partnerships; and prepare to be able to sustain themselves when they don't win or chose not to bid for key contracts.

Despite the challenges and their implications, 2017 is not a time to hunker down. The new *Independent Inquiry into the Future of Civil Society* will help to generate a debate about what kind of sector we want to be but charities individually and collectively need to be thinking afresh and be bold and ambitious now. And that should include a renewed onus on charities to speak out. As Brexit and funding decisions are made the sector must speak up for those who will not be at the table or politically powerful, as well as making the case for the UK's longer term social and economic challenges not to be ignored. Crisis and IC Change's recent successes around Private Members' Bills show it is possible to secure major long-term policy change within the current political climate, through

> **"We need a strong and vibrant sector not for its own sake but to stand up for, serve and empower those individuals and communities at risk."**

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effective and creative campaigns and developing new coalitions.

We need a strong and vibrant sector not for its own sake but to stand up for, serve and empower those individuals and communities at risk. The sector must also think about its own values and relationships, particularly how larger charities relate to smaller around contracting, commissioning and fundraising. Of course charities cannot do this on their own. Independent funders, infrastructure organisations and Government all have key roles to play in creating the right operating environment. But if all seek to change, then the sector faces a bright future, not in spite of the challenges it faces but because of how it is stepping up to meet those challenges.

Because for decades, and in countless ways, today's charities have led society's response and adapted themselves. In 2017 and beyond that will be more important than ever – for the people who no-one else will care or speak up for, to help bridge divides and facilitate a shared society, and to create the bottom-up development and opportunities that our resource-constrained post-Brexit society, politics and economy will demand. It is time for us all to get busy!

1. https://www.theguardian.com/business/2017/feb/07/ifs-warns-steep-cuts-tax-rises-40bn-black-hole-uk
2. https://www.theguardian.com/public-leaders-network/2017/feb/28/uk-government-cuts-parks-libraries-local-government-nhs-prisons
3. https://www.theguardian.com/society/2017/feb/20/councils-preparing-cut-essential-services-fund-social-care-road-repair-parks-leisure-centres?CMP=share_btn_tw
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5. https://www.lloydsbankfoundation.org.uk/Commissioning%20in%20Crisis%202016%20Full%20Report.pdf
6. https://www.gov.uk/government/news/putting-small-charities-at-the-heart-of-public-services

For a copy of Lloyds Bank Foundation's newly-published ***Facing Forward: How Small and Medium-Sized Charities can Adapt to Survive,*** visit www.lloydsbankfoundation.org.uk

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PUTTING COMMUNITIES AT THE HEART OF DEVOLUTION

With public sector finances under severe strain, there is a clear opportunity for devolution to harness the capacity and ideas of local people and organisations to transform public services, but we must act quickly and collectively says Locality's Ruth Breidenbach-Roe.

English Devolution was one of the flagship agendas of the Cameron and Osborne era of government, a self-styled 'revolution' to re-structure our democracy, public services and local economies. It may have fallen out of the spotlight somewhat for the new Government – and suffered setbacks in some areas with several failed deals – but the referendum on Brexit has shown that the appetite for communities to have a greater stake in the decisions that affect them has arguably never been greater.

However, so far, the potential for devolution to harness the capacity and ideas of local people and organisations to transform their communities has been missed. There is a gulf between the sub-regional settlements of new funding and public service responsibilities and the powers and resources required for truly putting power in the hands of local people. The VCS is an essential partner for local government if it is to achieve the potential of devolution, but engagement with the sector in the design and implementation of devolution deals has been extremely patchy.

At the Devolution Summit which we held jointly with CFG, Children England and NAVCA in September, we sought to address some of these challenges, bringing together community organisations, charities and infrastructure bodies from across the country to discuss how communities can be put at the heart of devolution.

The headlines for devolution from Government have largely been dominated by the promise of economic growth and big new infrastructure projects. We need to be more ambitious about the potential of devolution to build the social economy, support economic resilience in neighbourhoods and transform our public services through local delivery and commissioning.

Local organisations are an essential part of rebalancing our economies; they provide local employment and create diversity in the local market, supporting the growth of other community enterprises. Through their services and activities they also promote financial inclusion and improve the health and wellbeing of their communities, building local community resilience. The sector must be brought into local conversations about economic growth. Giving local areas real control over decision making and spending would also help to ensure that economic growth prioritises social justice, creating economies which truly work for the people in them.

Voluntary and community organisations are also an essential part of realising the potential of devolution to transform local public services, both in terms of delivery but also in supporting co-design with communities and in advocating for service users. Working with local organisations around service re-design not only delivers better outcomes, but is also an important route for ensuring added social value, strengthening local economies and focusing resources on early intervention.

Emerging strongly from the discussions at the Devolution Summit was the need to assert the vital advocacy role of the sector in the new devolved landscape. VCSE organisations provide an essential link between decision makers and communities, giving voice to some of the most marginalised and under-represented groups. The diversity and reach of the sector needs to be reflected in new devolution structures, with meaningful representation to amplify the voice of local people.

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This engagement isn't cost-free for local government, it requires funding as well as willingness, but the benefits of strengthening the democratic basis of devolution are great. For local organisations, the challenge is in articulating their value as an essential partner to local government and a source of important local intelligence. This requires collaboration across the social sector. The Devolution Summit was an important part of this, and across the country others in the sector are bringing partners together locally to make this case.

The future shape of English Devolution is less certain than it was a year ago, with potentially less-enthusiastic central Government leadership and several muted deals locally. We must continue to act collectively as a sector to shape its direction and ensure it benefits people and communities – particularly as the mayoral elections approach in May. However, there is also a wider question to be asked about where next for the aims of localism and community empowerment?

Successive governments have promised new ways of empowering local communities for decades. The 2011 Localism Act made great strides in advancing this agenda, with a set of Community Rights which have supported communities to preserve and run local services and assets, and help shape what their local area looks like through neighbourhood planning. However, a full renaissance in community powers and neighbourhood level governance is yet to come.

Citizens have so far not been inspired by English Devolution – with polling last year from Ipsos MORI showing that support is at 40%. Ultimately, a true 'devolution revolution' was never going to be achieved from the top-down; it requires galvanised and empowered communities and the local governance, organisations and community infrastructure in place to support them.

This spring, Locality will be launching a new Commission on the Future of Localism. Chaired by Lord Kerslake, president of the LGA and former head of the civil service, this Commission will bring together politicians, community organisations and policy experts to consider the future of localism and devolution. We will be capturing innovation and ideas from across communities and the sector on what is required to truly put communities in control of their local neighbourhoods.

We would be very interested in hearing from you as part of this project. To find out more, stay in touch with the developments of the Commission and to feed in evidence, please contact ***ruth.breidenbach-roe@locality.org.uk***

Ruth Breidenbach-Roe
Policy Officer, Locality

BREXIT: UNCERTAINTY DOESN'T MEAN WE CAN'T BE PREPARED

There is no way of knowing what impact Brexit will have until we know what deal the Government secures. However, it does not mean that charities cannot routinely look ahead to anticipate potential impacts. CFG's Anjelica Finnegan looks at what we can be doing now to prepare the way for Brexit.

There are two compelling reasons why charities need to be thinking ahead to a post-Brexit future. First, because once we officially leave the EU there may not be enough time to adapt to any changes. Second, because the charity sector should be communicating any challenges and key asks to the Government – if not because we need to ensure that we can continue to support our beneficiaries, then because we are a major employer and contributor to the economy.

In this article I will focus on four key areas that I think charities should consider. For more information about the range of different issues that charities should be aware of, CFG's Brexit briefing paper is a good place to start and is free to download on our website (http://bit.ly/2mHvQ4w).

The economy, donations and investments

The British economy has experienced unexpectedly strong – albeit it, unbalanced – growth since the referendum. Retailing and wholesaling has contributed 22.8% of the economy's growth over the last two years driven by consumer spending rising faster than incomes.

There are few who think that this disproportionate growth can continue – especially if productivity continues to stagnate.

How the economy fares post-Brexit is an issue for all charities for two key reasons:

1) **Your spending power**
After years of low rates of inflation, the pressure on the pound following the referendum is stoking an increase. If this trend continues charities will face a rising costs of goods.

2) **Your donor base**
Higher inflation will also have implications for household disposable income. CFG's analysis suggests that as disposable income falls, so do donations.

A third challenge faces those charities with investments. Opinion continues to be divided over any long-term impact on investments – equity markets have seen some strong returns since the referendum which suggests that the threat of recession has abated somewhat.

But whether the UK economy will see the growth it needs and whether the current stimulatory measures continue to comfort investors is yet to be seen.

If you want to find out more, CFG's Economic Outlook Briefings monitor the economy and what the implications are for charities.

Employment

The Government has said that it wants current EU nationals working and living in the UK to be able to stay, this is in part to ensure that UK nationals living in Europe are also able to stay in their adopted countries.

This outcome would be a welcome one for those charities that currently employ EU workers. However, this stated commitment will not necessarily be met – the EU institutions may well want to use it as leverage to extract further value from the negotiation process.

The Government seems set on enforcing stronger migration controls on EU nationals. We still do not have a clear idea what these will be. This will make it difficult for charities that depend on EU workers to plan and factor in associated costs.

We do know that the Government is looking to bring in legislation to limit immigration and so charities should keep an eye on debates surrounding this.

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Irrecoverable VAT

Irrecoverable VAT costs the charity sector over £1 billion per year. If you read CFG's publications, you will be aware that CFG and our partners have for many years been campaigning to address this problem.

However, because VAT rules have been set centrally within the EU, successive governments have cited the need for EU negotiation as a barrier to change. With these barriers removed, there could be a real opportunity for the sector to push for an overhaul in the system and free up much needed funds for charities.

EU funding

The EU is a source of significant funding for the sector's larger charities. It has been estimated that charities received over £200 million from EU funds in 2014, including the European Social Fund and the European Structural and Investment Fund. There has been no move yet by the Government to guarantee that this funding will be replaced once Britain leaves the EU.

If your charity has received funding from the EU, this will certainly be something that you will want to keep an eye on so that, if necessary, you can plan for, and adjust to, any loss of funding.

Concluding comments

Charities need to be alert to any changes and be clear about what our key asks will be in the negotiations.

CFG will continue to push Government to include charities in its Brexit discussions and consider how the sector's operating environment can be improved, or at the very least sustained. The policy team will be keeping you updated on latest developments around Brexit in our Brexit Watch feature in 'Finance Focus'.

Anjelica Finnegan
Policy and Research Manager,
Charity Finance Group

> **The Government seems set on enforcing stronger migration controls on EU nationals. We still do not have a clear idea what these will be. This will make it difficult for charities that depend on EU workers to plan and factor in associated costs.**

03 ACCOUNTING AND AUDIT

IN THIS SECTION

ACCOUNTING AND AUDIT IN 2017 – TIME TO RELAX OR 'FULL STEAM AHEAD'?

Hoping for some respite this year from significant changes to charity accounting? Don't sit back yet, says BDO's Rob Frost, there are further changes ahead.

Having seen some significant changes to the accounting regime in the UK in recent years, observers would be forgiven for thinking (and maybe hoping) that this year would be a quiet one for accounting and auditing changes. It may not have seemed unreasonable to have expected a short period to pause for breath as new UK GAAP entrenches and 'generally accepted' accounting practice emerges from the new requirements.

However, the regulators have recently been consulting on proposed changes in a number of key areas and the outcomes from those consultations (as well as some interesting developments coming through from standard setters in the wider accounting profession) mean that 2017 looks set to be yet another year of change for the financial reporting and auditing frameworks. Interested parties and standard setters will be keen to be seen to learn lessons from recent experience and will be striving to adapt and respond quickly to feedback.

A new regulator of charities is also now on the scene (Charity Commission Northern Ireland) and it will be interesting to see what kind of impact this will have on the regulatory environment generally across the UK.

The following is just a few highlights of accounting and auditing changes expected in 2017:

Accounting & reporting developments

- **FRC to consult on changes to FRS 102** with a clear focus on clarifying requirements concerning classification (and therefore measurement) of financial instruments. Preparers can also expect a consequential consultation on the implications for the charities SORP (FRS 102).
- **Outcomes of the SORP research exercise** are expected to feature in a variety of upcoming amendments which, depending on the SORP Committee's preferred areas of focus, could have implications for all aspects of the accounts and a charity's financial reporting practices. The changes could focus on a range of matters from the extent of disclosure about reserves policies in Trustees' reports, the allocation and apportionment of support costs in the SOFA through to enhanced reporting of the going concern status and how the charity manages risk.
- **Fundraising statements** to be included in the Trustees' report for all charities to explain approaches to fundraising activity and key outcomes (including complaints) as a consequence of that activity.
- **New accounting regulations in England & Wales** principally to legally require application of the appropriate SORP when preparing the accounts of a charity but may include some unexpected changes.
- **SORP information sheet clarifying SORP** requirements in a number of areas including the need for comparative information, presentation of reserves, the meaning of an 'auditable' charity. Further information sheets may follow.

Auditing developments

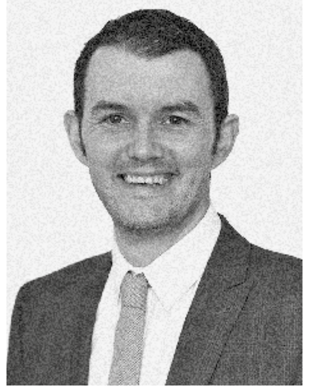
- **New auditing standards** apply for periods commencing on or after 17 June 2016. The new standards include a particular focus on auditing the disclosures in the accounts, the auditor's communications with those charged with governance, the audit of going concern and on a redesign and reorganisation of auditors' reports.
- **New Practice Note 11** to update for the changes to the auditing standards (including new ISAs) and to better reflect evolved practice in the audit of charities.
- **New audit opinions on the directors' reports for company charities** in which the auditor will (amongst other changes) provide an explicit opinion by the auditor about whether the Trustees' report of the charitable company has been prepared in accordance with the requirements of law and whether material misstatements in the front end narrative have been identified. This may result in some additional attention paid by auditors on the Trustees' reports going forward.
- **New ethical requirements** having, most significantly, implications for public interest entities (broadly defined as those with securities listed on an EU regulated market) limiting the extent to which non-audit services can be provided to audit clients.
- **Guidance relating to auditor reporting of matters of material significance to the regulator** which is likely to broaden the types of reporting made by the auditor to cover modified opinions and failures by Trustees to react to internal control weaknesses and recommendations made by the auditor.
- **New directions for independent examiners** which may include an enhanced focus on checking for conflicts of interest (and their resolution), independent examinations of group accounts and new formats for independent examiners reports.

All in all, a very eventful year is expected across the board with important changes coming from a variety of sources. It is important to note that, at the time of going to press, very little detail about many of the changes is actually in the public domain.

Charities and their auditors will therefore need to stay agile and look out for information releases by the standard setters and the regulators, and be prepared to react and respond quickly to any changes as they come through. Any changes are likely to be of immediate importance (even if not immediate application) and as most have experienced in recent years, the devil is always likely to be in the detail!

> "Charities and their auditors will need to stay agile and look out for information releases by the standard setters and the regulators, and be prepared to react and respond quickly to any changes."

Rob Frost
Director, Technical Standards Group, BDO LLP



RESULTS OF CFG'S SORP CONSULTATION – WHAT YOU TOLD US

In December 2016, CFG submitted a consultation response on behalf of members to the Charity Commissions' SORP research exercise. CFG's Heather McLoughlin shares the results and the details of CFG's response.

Last year the Charity Commission and OSCR, the two SORP-making bodies within the UK launched a research exercise on the current SORP (FRS 102), with a view of launching a new framework in 2019. The SORP (FRS 102) is the framework for charities' annual reports and accounts. They sought to seek views on the structure, format and accessibility of the SORP and whether charities had faced implementation issues under the new SORP (FRS 102). Opinion was also sought on proposed changes made by both the SORP Committee (of which CFG is a member) and the Commission and OSCR. The research exercise gave charities the opportunity to comment on any items that could be removed, changed or added to improve the SORP.

In December 2016, CFG submitted a consultation response to the Charity Commissions' SORP research exercise following a wide range of our own consultations with our members. This involved four roundtable events across England and Wales (London, Birmingham, Manchester and Cardiff) and the CFG's Technical Accounting Forum, resulting in us speaking to over a 100 charity specialists and accountants. Further research was conducted through CFG's SORP Consultation survey, which drew 121 responses.

One of my greatest experiences during the consultation process was meeting so many people who are passionate about helping charities and the voluntary sector to develop good financial governance. The role of the SORP within these aims was regarded as a key cornerstone.

Our response was done within the context of considering the following issues:

- **Role of the SORP** – Charities are no longer solely using their annual reports to communicate impact and efficacy. We implored the SORP-making bodies to consider this current 'twilight' period where charities are increasingly looking at using other methods of engagement, while keeping the SORP as the main method for communicating finances.
- **Audience** – Who is the audience for the annual report, and what level of expertise do readers have? CFG's engagement with our members and the accounting community made it clear that reports are generally read by a small group of people, usually with knowledge of the sector or financial knowledge, as well as regulators and interested funders. We argued that if the SORP is to be used to engage with the public therefore, the narrative side of the SORP is more important in helping those with a limited understanding.
- **Public interest** – This is more than what is simply of interest to the media, public and regulator but rather, *'an action or requirement to change behaviour that will benefit the public overall – not merely a narrow group of stakeholders.'* We believe that changes should only be made if they can prove that they will lead to an improvement for the public as a whole or lead to a change in behaviour that will have a positive difference for beneficiaries.

These three points were widely discussed throughout the consultation process with our stakeholders and we feel that there is a significant appetite within the sector to ensure that these three themes are instrumental when reviewing the SORP (FRS 102).

Overall, CFG's main areas of focus for this research exercise are:

1. **Reject the proposal for a Key Facts Summary**
CFG found no rationale for why this summary would improve understanding of charities, and did not believe that there is no universal financial information which could demonstrate the effectiveness of a charity. We argued that it is only likely to discourage readers from engaging with the full annual report and accounts.

2. **Reject the proposal for material donors and funders to be declared**
There was major concern that this proposal would impact on a donor's right to privacy and could lead to fewer charities receiving charitable donations. We did not believe that declaring funders, such as local councils, would improve the public's understanding of the effectiveness of a charity.

3. **Abolish the separate accounting of support costs**
We argued that these added a burden on charities and did not add any value for the reader of the accounts. We argued that support costs are necessary for all operations and separating out support costs feeds an incorrect impression that support costs are a 'bad' piece of expenditure and that the SORP making bodies need to take action.

4. **Reject calls for further details on administration and fundraising costs**
CFG argued that more financial disclosures are not the way to improve understanding of charities' operations, encouraging and supporting charities to talk about their operations and approach to fundraising through narrative reporting would be better.

5. **Reject calls for charities to break down their spending by jurisdictions**
This will not add value as most charities that work overseas will already be explaining their operations through the narrative reporting. This will add significant bureaucracy, however, and further lengthen the SORP.

CFG would like to extend a thank you to all members and corporate partners who participated in the consultation response. We will continue to work with the Charity Commission and other stakeholders to ensure that the SORP continues to work for the sector and the public interest.

The full consultation response can be found on CFG's website at ***http://bit.ly/2iCWc8x***.

Heather McLoughlin
Policy and Public Affairs Officer,
Charity Finance Group

> “One of my greatest experiences during the consultation process was meeting so many people who are passionate about helping charities and the voluntary sector to develop good financial governance.”

INDEPENDENT EXAMINATIONS – THE PAIN-FREE ALTERNATIVE TO AN AUDIT

Don't fear your Independent Examination says Community Accountant, Lisa-Jane Bradbury, they're quicker and simpler than an audit, and can help you refine your accounting systems.

I have had several queries recently from charities who are under the impression that to successfully apply for funding or to present their accounts at their AGM etc, that their accounts need to be audited. When I inform them that their accounts may require an independent examination (IE) instead, there is usually a lot of head scratching and I usually hear "Well isn't that the same thing?"

While legally your charity 'may' require external scrutiny of its accounts (depending on the charity's gross income), don't panic, as an IE will be considerably cheaper, quicker, and hopefully relatively pain-free, compared to a full-blown audit.

So, does your charity require an IE?

Not if you're based in England or Wales and your gross income is less than £25k.

If your charity has a gross income of less than £1m (and if income exceeds £250k and gross assets do not exceed £3.26m) then you have the option of undergoing an IE rather than an audit. If income is over £250k then your IE must be carried out by a member of a recognised professional body. Even if your charity does not have a legal requirement to have accounts independently examined, having an independent examiner can only be a good thing as they will:

- Review your accounts and the Trustees' report to ensure that they both comply with best practice and relevant accounting standards;
- Compare the accounts to the books and perform analytical procedures which are recorded;
- Write an independent report to be included within your accounts.

In a nutshell, an IE involves a review of the charity's accounting records and considers if there are any unusual items or necessary disclosures. Usually the Independent Examiner will not be poring over your accounts with a fine toothcomb, like an auditor would (there is a different level of "assurance" – an auditor gives "reasonable" assurance whereas an IE gives a "limited" assurance). There are rules set by the Charity Commission that the IE must follow, though these are less prescriptive than those for an auditor.

Even so, the charity must be prepared to provide additional information to the IE, if required. Also bear in mind that when examining the accounts, the IE is only required to confirm that there is no evidence to suggest that the charity has not done certain things, otherwise known as a "negative assurance" (which is legal speak for "no matter has come to my attention").

Preparing for the independent examination is important and careful planning is key. The main considerations are:

- To ensure that all accounting records are up-to-date and available;
- To agree a timetable with the Trustees to prepare the Trustees' report;
- Ensuring that the examination takes place at a time when the Trustees and key staff are available to answer any questions which may arise.

Also, be aware that an IE will be performing an analytic review of your accounts. This means that they will be looking at the numbers and the substance behind the numbers.

To do that, the examiner will need an understanding of the charity and how it operates, so therefore it is imperative to have these records available:

- The charity's constitution;
- How the charity is organised;
- Details of the charity's accounting systems;
- Details of the charity's activities
- The nature of its assets and liabilities;
- Minutes from Trustee meetings and the AGM.

Not only is it ultimately the Trustees' responsibility to ensure the provision of accounting records, but they are also responsible for the Trustees' Report section in the accounts. Although an IE will not delve into the substance of the report, the Charities SORP (FRS 102) requires that certain information is displayed in the accounts (such as the charity's purposes and its main activities). An IE will generally only check that the relevant parts of the SORP have been addressed and that the information in the report is consistent with the accounts.

So, in a nutshell, don't be afraid of an IE. In fact, why not embrace the opportunity to have an experienced and independent person guide you through the maze of rules and regulations of your accounts, whilst building confidence in among stakeholders. Who knows? A review of your accounting systems and procedures may be more beneficial to your charity than you envisaged!

Lisa-Jane Bradbury
Community Accountant , VAST

VAST provides services and support to community groups, charities and social enterprises in Stoke-on-Trent and Staffordshire. For more information: ***www.vast.org.uk***

> **"Even if your charity does not have a legal requirement to have your accounts independently examined, having an independent person to examine your accounts can only be a good thing."**

FIRING UP YOUR ANNUAL REPORT

MHA MacIntyre's Sally Knight presents a series of questions you can use to kick start fresh conversations about how to ensure you are maximising the impact of your Annual Report.

As an accountant, I sometimes feel I have a guilty secret. I have always been more interested in the 'words' than the 'numbers' in a set of accounts. Of course, as an auditor, I am paid to ensure that the numbers are 'right' or – in audit speak – 'true and fair', but it is often discussions about the words which ignite a brighter spark, especially as far as Trustees are concerned, and particularly when we are discussing the Trustees' Report.

The Trustees' Report provides an amazing opportunity for Trustees to explain what the charity is set up to do, how it is going about it, what it has achieved as a result of its work, where the difficulties may lie, and what it plans to do next. One potentially positive outcome of deterioration in public trust and confidence in charities is that many of the organisations I am working with are becoming far more alert to the messages they are giving, and the way they are portraying themselves. The Trustees' Report, in my view, should be viewed as not only a "window" into the inner workings, governance and policies of the charity, but also as a reflection of the charity's aims, objectives, challenges, and impact on wider society. A great opportunity but also a reason to, perhaps, spring clean some of those older, standard sections which often suffer from being carried forward from one year to the next (risk statements, reserves policies, statements about governance, how the charity is run, and so on).

My colleagues and I at MHA MacIntyre Hudson are finding that an increasing number of Trustees are taking up our offer to engage in the financial reporting process at its beginning, as well as at its conclusion, and we really encourage this. In relation to the Trustees' Report, specifically, it's important that Trustees consider how they – and the charity's staff – view and value the financial reporting process (assuming they do...or if they don't, why that is).

To help get the conversations started, we encourage consideration of questions such as:

- What is the role of the charity's Trustees' Report?
- Who will be reading it? Who are the end users?
- What is the Report's position and place in relation to the other hard copy, digital and website information that the charity produces?
- Who are the charity's stakeholders and to what extent do you need or want to consider their views and expectations in the context of the charity's report?
- What are the key messages which should be brought out in the Report – in the words, in the numbers, in the accounts, or both? This links into impact reporting – and being able to back up not just the charity's outputs, but also the outcomes and

> **"[We] are finding that an increasing number of Trustees are taking up our offer to engage in the financial reporting process at its beginning, as well as at its conclusion, and we really encourage this."**

the impact the charity is making on its "individual beneficiaries and at a societal level" (SORP para 1.43). For most charities this will not necessarily be easy information to produce quickly, and it may be particularly challenging for charities that are not dealing directly with frontline service delivery.

- Are there any particular sensitivities you can identify with certain potential messages which need further consideration?
- How active and involved are the charity's Trustees (and relevant sub-Committees) in the formulation, review and approval of the Report? What role do they want to have / should they have, and is the drafting and approval timetable such that this can be accommodated properly?
- Do you want your charity to be a beacon of exemplar financial reporting... or just compliant... or somewhere in between? The revised SORP focuses on 'must', 'should' and 'may' so you have a choice as to the extent of disclosures you can adopt. If you are a small charity, you also have the choice of whether to include comments about the matters which are technically only required or suggested for larger charities.
- Are there any of the 'standing' sections which need refreshing in the light of the changing environment, the charity's processes or its financial results – obvious candidates may be the reserves policy (silence is not an option!), and the statements on the "principal risks and uncertainties facing the charity... together with a summary of their plans and strategies for managing those risks".
- Are there any new sections which need adding in – for example, for larger charities the "arrangements for setting the pay and remuneration of the charity's key management personnel and any benchmarks, parameters or criteria used in setting their pay". Given certain sector scrutiny and sensitivities this may need some thought from Trustees in advance.

This is by no means an exhaustive list but just from the points highlighted above we can see that there are some hooks for some interesting conversations, and the range of views which may become apparent round the table shouldn't be underestimated!

There is so much more to good financial reporting than the drafting and approval of the Trustees' Report, but it does provide an opportunity to start the conversation about the responsibilities of Trustees in relation to key financial governance and reporting processes, and the charity's financial health.

We are delighted to be working with CFG to offer Essential Charity Finance Training for Trustees with a twist – looking at the principles of accountability and reporting, and considering what this looks like in the context of the charity's financial strategy and governance. And – for less experienced Trustees or those wanting a reminder – we'll also provide a quick recap of the key charity finance terms we think all Trustees should be familiar with in order to help them do their vital work even better.

For more information on Essential Finance Training for Trustees, please contact ***natalie.keppler@cfg.org.uk***

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04 TAXATION AND VAT

IN THIS SECTION

CHARITY TAX – MANAGING THE COMPLEXITY

The charity tax landscape is complex and constantly changing, and mistakes can be costly. So how do you ensure that you're compliant while not paying tax unnecessarily? It might be time to review your charity's tax strategy and procedures says RSM UK's Andrew Robinson.

Those who are new to charity finance are often surprised at the scale and complexity of the charity tax regime. Any preconceptions that 'charities don't pay tax' are soon dispelled.

It's true that charities benefit from a number of valuable tax reliefs, including reliefs from corporation tax, income tax and business rates. Charities are also able to claim tax repayments from HM Revenue & Customs (HMRC) in respect of donations received under the Gift Aid rules. However these reliefs and tax benefits are subject to detailed rules and conditions, which are all too easily misunderstood.

Although charities benefit from some VAT reliefs for example, they are generally unable to recover in full the VAT they pay on their purchases. VAT can therefore represent a very significant cost. Calculating how much VAT a charity is able to reclaim can itself be a very complicated process.

It is also important to remember that the charity sector employs a large number of people and, as such, is responsible for paying significant amounts of income tax and National Insurance contributions to HMRC under Pay As You Earn (PAYE).

To add to this complexity, the charity tax landscape is constantly changing. Legislative changes that we are likely to see in 2017 include:

- Amendments to the rules that limit the value of benefits that can be provided by charities to their donors where Gift Aid is claimed on the donations received;
- The relaxation of certain aspects of the Gift Aid Small Donations Scheme with effect from 6 April 2017;
- The introduction of the museums and galleries tax relief with effect from April 2017, which will enable charities that maintain a museum or gallery to claim cash payments from HMRC in relation to the production of certain exhibitions;
- The introduction of the Apprenticeship Levy on 6 April 2017, under which charities with an annual payroll of £3m or more will have to pay a 0.5 per cent levy to fund apprenticeship schemes.

In addition, several relevant VAT cases are working their way through the courts, more details of which are likely to come to light during 2017. For example:

- A decision is expected early in 2017 in relation to the Adecco case, which concerns the extent to which the cost of temporary workers provided by third parties is subject to VAT;
- The decision of the CJEU is expected in relation to Brockenhurst College, which addresses the question of whether supplies made by a college were closely related to its provision of education, and hence exempt from VAT;
- The University of Cambridge is to have its case heard by the Court of Appeal towards the end of 2017, to determine whether investment management fees incurred by the University may be treated as partially recoverable 'overhead' VAT.

On top of this, charitable trusts that are 'Financial Institutions' for the purpose of the Common Reporting Standard must make their first annual report of payments to non-UK tax resident beneficiaries to HMRC by 31 May 2017.

In the light of this complex and changing tax environment, it is important that charities have procedures in place to ensure that they are continuing to comply with their statutory tax obligations, but at the same time are not paying tax unnecessarily.

Overlaying these procedures should be the charity's tax strategy, setting out in high-level terms how the charity views its responsibilities in relation to tax, how it manages its tax risks, its approach to tax mitigation arrangements and generally the type of relationship it wishes to maintain with HMRC. The tax procedures and arrangements that the charity maintains on a day-to-day basis should be reviewed regularly, to ensure that they are consistent with the charity's overall tax strategy.

For charities, maintaining an effective tax strategy is not always easy, as they need to balance their statutory (and, some might say, social) tax obligations against their requirement to maximise the extent to which their limited financial resources are applied for their charitable purposes.

A recent survey by RSM found that a quarter of charity audit and finance committees had either never considered their tax obligations, or if they had, had considered them less than once each year. That is not to say that those charities are not managing their tax affairs effectively on a day-to-day basis, but it does suggest that those charged with governance are not as engaged as they should be in the strategic management of their charity's tax position. One might ask whether the charity's Trustees even understand the tax issues that impact on their charity, or whether they are of the 'charities don't pay tax' mind-set.

Given the complex, evolving tax environment in which charities find themselves, and the potentially significant costs of getting things wrong, both in financial and reputational terms, one might expect all charities to have strong tax governance arrangements in place.

HMRC is starting to look more closely at the tax strategies adopted by larger commercial enterprises, and it may well be only a matter of time before a documented tax strategy becomes an expected requirement of all well-governed organisations.

Perhaps 2017 will be the year that you revisit and refresh your charity's tax strategy.

Andrew Robinson
Partner, Head of Charity Tax, RSM UK

"We found that a quarter of charity audit and finance committees had either never considered their tax obligations, or if they had, had considered them less than once each year."

SECTION 4: TAXATION AND VAT

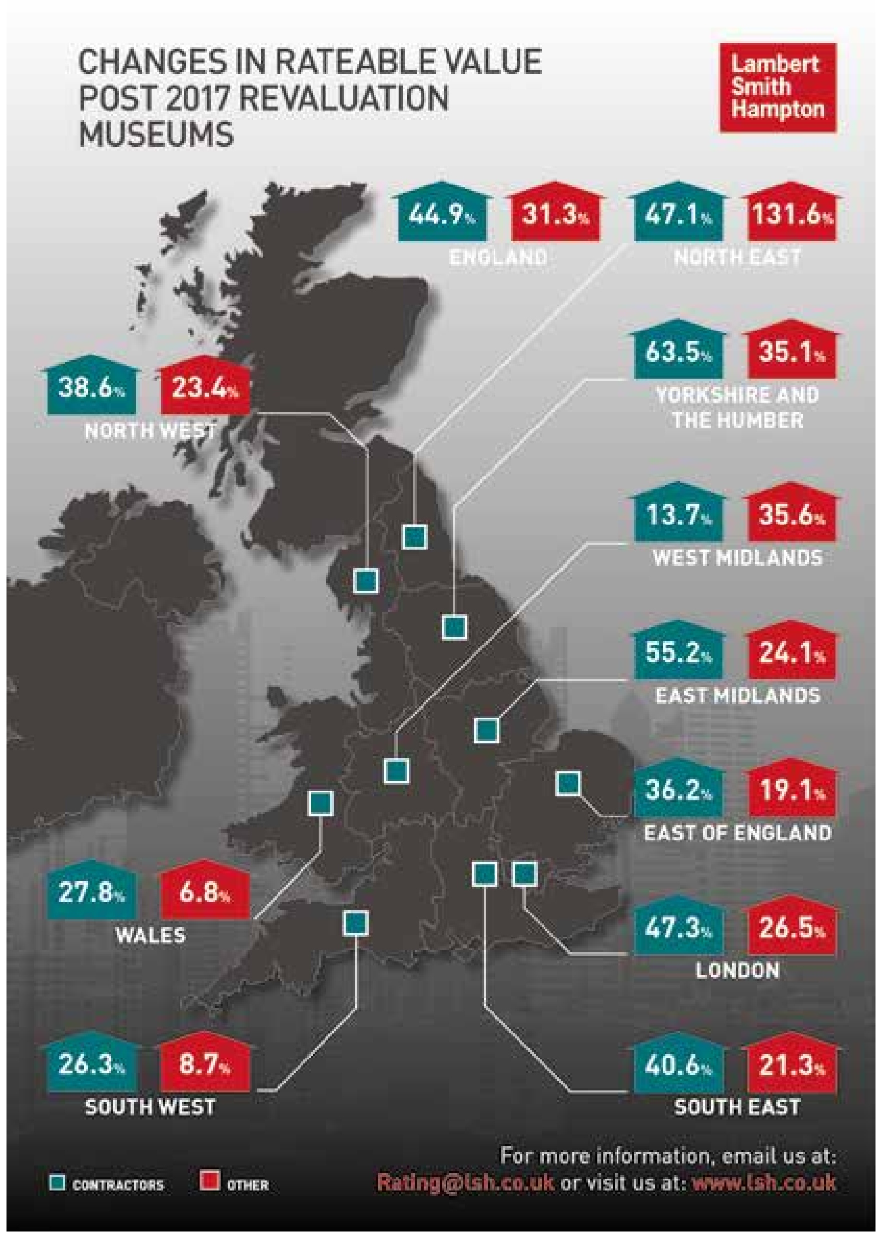
BUSINESS RATES 2017 – ALL CHANGE!

There has been a lot of press coverage on the impact of the 2017 business rates revaluation and the damaging effect it is likely to have on businesses across England, Wales and Scotland. Quite what it will mean for charities is slightly more difficult to predict. Colin Hunter, Director of Business Rates at Lambert Smith Hampton (LSH) explains.

The Revaluation

New Rateable Values (RV) for all non-domestic properties across England and Wales will come into effect on 1 April 2017.

The new RVs, which are based on rental market evidence as at 1 April 2015 and set by the Valuation Office Agency (VOA), have seen an overall increase despite the fact that there have been seven years of recession and poor market conditions since the last revaluation. While the headlines have been dominated by what is seen as excessive RV increases in London and the high street, other sectors such as museums have been hit equally hard.



> **“A charity with only one property with a value of £14,400 or less will be worse off than an equivalent small business.”**

As there are no rents on which to base the museums' RVs, alternative methods of valuation, looking at either the income generated from the property or the construction costs associated with replacing it, are used, and can produce variances of up to 450%!

Action that can be taken

Despite the new Rating List not coming into force until 1 April 2017, appeals against draft RVs can already be made. However, in a bid to prevent spurious appeals, encourage early dialogue, and promote transparency and efficiency, the Government has introduced a new three-stage process – known as 'Check Challenge Appeal' – which is applicable to all properties in England from 1 April 2017.

1. Check
Details of the information used by the VOA to determine the new RV can be requested and checked for factual errors, such as the size of the property, with evidence to support any amendments submitted. The VOA is not required to justify its valuation or provide any evidence in support of the RV. Once receipt of the 'Check' has been formally acknowledged, the VOA has up to 12 months to decide whether to accept the proposed changes and amend the RV. Incidentally, most rating appeals aren't as a result of a dispute on floor areas, rather the value placed on those floor areas.

Therefore 90% of the time, this process will not advance the discussion but will simply waste time for both the ratepayer and the VOA.

2. Challenge
If no agreement can be reached, the ratepayer can officially 'Challenge' the RV within four months of receiving the VOA's decision, or after 12 months have elapsed. The submission must set out detailed reasons for disputing the RV, including comparable evidence and a revised valuation. There is still no requirement for the VOA to produce any evidence, thus putting the onus entirely on the ratepayer.

3. Appeal
If no agreement can be reached after the VOA has issued a determination to the 'Challenge', or 18 months have elapsed, the ratepayer can 'Appeal' to the Valuation Tribunal for England. The ratepayer cannot change the grounds of the 'Challenge' (even though some may have been resolved) and cannot introduce fresh evidence without the formal agreement of the VOA. The ratepayer can therefore end up with an appeal before the Valuation Tribunal without any inkling of why the VOA has adopted the RV. As a further insult, the Tribunal is being directed to consider a reasonable range of professional judgement, but the benefit of the doubt is to be given to the VOA not the ratepayer.

The whole appeal process could therefore take more than three years. By contrast, despite the very large backlog, appeals against the 2010 Rating List were typically dealt with within 6-24 months.

In Wales, the process remains the same and is started by a simple proposal setting out in very general terms that, in the view of the ratepayer or owner, the property is over-valued. Care is still needed in wording the appeals as the VOA has a very critical approach and, where possible, will employ technical arguments to have it struck down.

Charities losing out to small businesses

Charities receive 80% mandatory relief from rates for properties that are 'wholly or mainly' occupied for charitable purposes, and pay no rates on empty properties if it appears that when next occupied it will be occupied 'wholly or mainly' for charitable purposes.

However, charities which are eligible for charitable relief are not eligible for small business rate relief (SBRR). From 1 April 2017, a small business with only one property which has an RV of £12,000 or less will receive 100% relief from rates, whereas charities will only receive 80%. SBRR is tapered from 100% at RV £12,000 to 0% at RV £15,000. Therefore, a charity with only one property with a value of £14,400 or less will be worse off than an equivalent small business.

Prior to 2013, the cost of providing charitable relief was carried by Central Government. Since 1 April 2013, 50% of the cost is now being borne by local authorities. This shift has had a major impact on councils' thinking when it comes to providing any additional relief. As a result of this change and the continuing cuts in local authority funding by Central Government, the number of councils providing additional relief (up to a further 20%, giving a total of 100% relief) is falling year on year.

Other points of concern

There are two further points of concern for charities. Councils were fairly relaxed about the words 'wholly or mainly' and, as long as a property was being used for charitable purposes, the 80% relief would be granted. However, an increasing number of councils, spearheaded by Sunderland and Sheffield, are questioning not only the use of the property but the degree to which it is occupied and the efficiency of the occupation. This has started as a reaction to charities taking short-term lettings of vacant buildings allowing the landlord to escape the burden of empty property rates. The arguments now being applied by the councils and, in some cases, accepted by the courts are applicable to any property occupied by charities. Therefore, charities need to consider what uses they are putting their properties to very carefully to avoid their right to mandatory relief being challenged.

A further attack on charities has also been launched by the VOA. As previously mentioned, cases have been heard in February 2017 in respect of appeals for York Museums and Gallery Trust (YMT). The VOA's main argument is that the shops, cafes and venues occupied as part of the museums should be separately assessed. Prior to 2014, the VOA had treated the whole of each museum as one property for rating purposes. Then in 2014, the VOA decided to split out the shops and cafes, backdating the changes to 1 April 2010 and creating in excess of £300,000 additional liability for the seven year revaluation period and, of course, a potential future liability from 1 April 2017 onwards.

Following Charity Commission guidance, YMT created a separate, wholly-owned, trading subsidiary to oversee non-core trading activity such as retail sales and venue income. The VOA's argument is such that the trading subsidiary must be in occupation of the shops, cafes and venues and therefore liable for rates with no benefit from charitable relief. This argument was put forward in front of the Valuation Tribunal for England, and failed. The Tribunal ordered that the shops, cafes and venues should be merged back into the assessment for the museums and the VOA has appealed to the Upper Tribunal (Lands Chamber) in a combined case with the YMT's appeal against the level of value.

This is not an isolated case. The VOA has previously made a similar argument against National Trust and won, and has already split out the shops and cafes for other charities including, most notably, the British Museum. Where shops are occupied by a third party then there should be, in accordance with established rating law, a separate RV.

The decision of the Upper Tribunal is still awaited at the time of writing this article but, if the VOA is successful, this will have serious implications for all charities which have followed the Charity Commission guidance. If the YMT is successful, not only will it radically reduce the RV of their properties, it could also benefit nearly 50% of museums across the country, and also help other charities in unique or bespoke properties. However, charities will need to take care how they set up the use of their properties for non-core activities going forward.

Further articles will be written when the decision is handed down.

Upper Tribunal appeal: York Museums and Gallery Trust vs Stephen G Hughes (Valuation Officer) RA/20/2015

Colin Hunter
Divisional Director,
Lambert Smith Hampton

Colin Hunter is a Divisional Director based in LSH's Leeds office and is a member of the national rates advisory team. Colin has been advising charities on business rates since 1990. He has been advising members of the Association of Independent Museums (AIM) since 2001 and is an advisor on business rates to the AIM nationally.

VAT AND TRADING UPDATE

Our two experts explore the latest updates and developments that charities must be aware of in VAT and trading.

CHARITIES AND TRADING

Do you think there's a risk your charity is carrying out taxable, non-charitable trading activities? Louise Veragoo has some key questions to consider.

What constitutes trading for a charity is important for both law and corporation tax purposes. It is a question that can only be answered on a case by case basis and is dependent on the exact charitable objects of the individual charity in question.

So why is the area of trading so important for a charity?

Aside from the obvious advantages of generating essential funds for use by the charity, the activity of trading can sometimes trigger an unexpected corporation tax liability for an otherwise tax exempt charity. That is because the profits of a non-charitable trading activity carried on by a charity will be subject to corporation tax at the prevailing rate (currently 20%).

It is worth noting that there is an exemption for small scale (non-charitable) trades which broadly allows profits arising from a trade generating income up to £50k per annum to remain exempt from corporation tax. Although this may be a useful relaxation of the rules, given the small income limit it is not always helpful for larger charities and those with a number of non-charitable trading activities.

Of course, charitable trading and the profits arising thereon are still exempt from corporation tax provided the profits are applied for charitable purposes only. The difficult question is therefore, which types of trading constitute charitable trading and which do not?

In summary, charitable trading is trading that is exercised in the course of carrying out the primary purpose of the charity. That is, giving consideration to the charitable objects of the company as set out in its governing document, that the activities that amount to trading can be said to directly further the charitable purpose. The other category of charitable trading is that where the beneficiaries of the charity carry out the trading activity.

When considering whether any of your charity's activities may amount to non-charitable trading, it may be worth asking yourself the following questions. If you can answer yes to any of them, then there is a risk that your charity may be carrying out a taxable non-charitable trading activity.

1. Does your charity generate profit from the sale of goods that have not been donated to the charity?
2. Has your charity acquired land with the intention to sell it on at a profit?
3. Does your charity operate a theatre, museum or gallery and provide a café or restaurant for its on-site patrons but also to members of the general public?
4. Are you providing services such as cleaning and catering in addition to the rental of some of the charity's land or property?
5. Is the purpose of the trading activity to generate funds for the charity, rather than to further the charitable objects of the charity?

As is clear from the questions above, non-charitable trading may include a number of different types of activities and accordingly, the activities of your charity should be constantly monitored in order to avoid any unexpected corporation tax liabilities.

Tax planning can help to mitigate the corporation tax liabilities and advice should always be sought in order to establish the most tax efficient way forward for your charity.

Louise Veragoo
Not for Profit Tax Director, haysmacintyre

VAT INSPECTIONS 2016: REVERSE CHARGES

If you're purchasing services or products from overseas, you need to be aware of VAT reverse charges. Robert Warne explains.

If I were to look at the issues affecting my charity clients over the last couple of years, and the focus on them from HMRC, there appears to be a pattern emerging as to an area the Revenue are focusing on during the VAT inspection. This is HMRC's new favourite topic:

Reverse Charges

These are supplies of services purchased from suppliers outside of the UK, without UK VAT, that would have attracted UK VAT had they been received from a supplier based in the UK.

So, as an example, in normal circumstances, if a charity was to instruct a UK accountant to undertake its audit, the charity would be charged UK VAT on the invoice.

However, if the charity were to receive the service from a French accountant, then the invoice received from the French supplier would be without any VAT. It would then be the responsibility of the UK charity to account for VAT in the UK using the reverse charge, by paying over UK VAT at 20% in Box 1 and 3, followed by recovering the VAT on the purchase to the extent that it can in Box 4 of the same VAT return.

HMRC are enjoying a good deal of success where charities have failed to understand these charges, especially when the charity is not in a position to recover VAT on this "deemed" purchase.

So how charities are presently treating this reverse charge? Some charities are undertaking the correct procedure, but as HMRC are finding out many are:

(i) Blissfully unaware it exists; or

(ii) Believe it only applies if the supplier is from another EU country.

The typical services purchased from outside the UK by charities include:

(i) Internet services

(ii) Software licencing

(iii) Agency fees

(iv) Management consultancy

However, the reverse charge relates to the vast majority of services so, if UK VAT is not applied from the overseas service provider, the likelihood is that the reverse charge will apply in the UK.

Please be aware that failing to spot these supplies could have significant impact, especially if the charity is not entitled to recover all of its VAT. HMRC are quick to raise assessments on this issue and there is also the careless penalty error of up to 30 per cent to consider as well.

A final footnote to the above is that if a charity is not currently VAT registered, it is not excused from operating the reverse charge. If the charity makes any business supplies at all, whether taxable or exempt, but is below the VAT registration limit, then the value of the reverse charges must be added to the taxable business turnover. If, as a result of this, the turnover then exceeds the VAT registration threshold of £83,000 in any retrospective 12 month rolling period, the reverse charge could lead to a charity having to compulsorily register for VAT.

So in summary – if you are a charity receiving a service from abroad without VAT, from a non-UK based company, then you ignore that transaction at your peril.

Robert Warne
Partner and Head of VAT,
Crowe Clark Whitehill

> **"If a charity is not currently VAT registered, it is not excused from operating the reverse charge."**

MAKING THE MOST OUT OF GIFT AID

Gift Aid is one of the most important tax reliefs for charities, but many are missing out. Andrew O'Brien is on a mission – to make 2017 the year that charities reconsider their approach to this important tax relief.

Gift Aid is one of the most important tax reliefs for charities and is worth over £1.2bn to the charity sector every year according to HMRC. This is a significant amount of money, yet research indicates that there is still a 'Gift Aid' gap worth hundreds of millions of pounds to the charity sector.

Are you prompting donors to think about Gift Aid?

Research from HMRC indicates that people respond most receptively to 'asks' to claim Gift Aid if there is a clear link to their charity's activities. These could be messages about how much was claimed last year and what has been done with the funding generated from Gift Aid. Alternatively, it could be reminding donors what more could be done if every donation received by the charity claimed Gift Aid. Behavioural economics indicates that people are more likely to be loss averse, so reminding them how much could be lost if donors don't Gift Aid their donation can also be effective.

There is also the need to ensure that volunteers and supporters fully understand what the Gift Aid system is and the benefits of the charity. Again, research from HMRC indicates that 'trusted ambassadors' such as volunteers, supporters or celebrity patrons are effective channels in explaining Gift Aid and encouraging people to recognise the value of ticking the box.

We know that donors who understand Gift Aid are more likely to claim Gift Aid, so education should not be seen as a luxury but as a necessity.

Making sure you make the right claims

The cost of error to Gift Aid is three times higher than fraud according to the National Audit Office. They estimated that around £45m is made in erroneous claims every year – more than the £15m lost due to fraud.

Charities with experience in Gift Aid will recognise this statistic and the need to have effective processes in place for identifying the right donors. Again, educating staff and donors is important but also considering 'high risk' donor groups.

Young people (who are more likely to be on lower income or have irregular employment) as well as those that are close to or over retirement age are good examples. The significant increases in the Personal Allowance has lifted millions of people out of income tax but also out of Gift Aid.

Regular audits and internal checks are the best remedy as well as contacting long standing donors who claim Gift Aid to ensure that they are still paying tax. In the past this may have been practical on a three or four year basis, but with people's tax status changing more regularly it might be worth considering shortening this to a one or two years.

Are you missing out on Gift Aid?

Generally when charities think about Gift Aid they tend to think about donations and direct debits but increasingly charities have to innovate to raise funds. Crowdfunding, events and supporter schemes are becoming more common.

Rather than assuming that some types of activities cannot be eligible for Gift Aid, charities should ask whether they could be structured in a way to enable Gift Aid to be claimed and get maximum value for the organisation.

When setting up events, do you have to charge or could you ask for donations instead and claim Gift Aid? What benefits are you offering to your members or supporters? Could adapting them make the scheme open to Gift Aid?

Think again about the Gift Aid Small Donations Scheme

The Government has also reformed the Gift Aid Small Donations Scheme, after campaigning from CFG and other charity bodies, which means that more charities can benefit from it. New charities, or charities which irregularly claim Gift Aid, are now eligible for the scheme under relaxed eligibility rules.

This means that more charities which carry out fundraising through small cash donations and bucket collections are able to claim Gift Aid style payments on their fundraising – boosting their value by 25%.

Charities which carry out their activities from a building such as a community centre may also be eligible to claim on small donations to support their upkeep. Given the cuts to discretionary business rate relief in the charity sector, anything that can help generate income to pay for the upkeep of buildings should be utilised.

The funding environment must concentrate minds

Gift Aid is one of the main ways that charities seek to remain tax efficient. Individual giving has become ever more important as a form of income for charities as government grants and contracts have dried up.

For charities, big and small, fundraising is the order of the day but making sure that you get the biggest impact from your donations is critical. Gift Aid is one of the charity sector's biggest allies in improving our financial sustainability. Join me on my mission to get all charities to get the most out of it!

Andrew O'Brien
Head of Policy and Engagement, Charity Finance Group

> "Charities should ask whether their activities could be structured in a way to enable Gift Aid to be claimed and get maximum value for the organisation"

05 BANKING AND INVESTMENT

IN THIS SECTION

GETTING THE MOST OUT OF YOUR BANK

With the Bank of England base rate at historic lows, charities need to work harder to get the most out of their cash. But as David McHattie, Head of Charities at Barclays, explains, you need to start with an understanding of your charity's needs and ask the right questions.

With the Bank of England base rate now at just 0.25%, many charities are considering how to get the best value for their cash surpluses. These are no longer yielding positive returns for short term deposits, so how do you determine 'best value' and how can you get it? There are several things to take into account.

Maximising your cash surpluses

Firstly, look at your cashflow forecasts. Is there a cash sum that you can afford to place on longer term deposit? Basel III regulations mean that longer-term deposits have more value to banks, which they use to pay higher rates of interest. But should the interest rate on offer be the best way to determine best value?

Attractive interest rates don't always last and are typically based upon a bank's need for money at a given time, and will consequently change over time. As a general rule, the higher the rate of interest, the higher the bank's need for deposits. You should always be conscious of the risk/reward ratio and consider the minimum credit rating required for a bank counterparty, as set out in your Treasury Policy, if you have one.

A better guide to best value is a bank's tariff for day-to-day transactions, as this pricing can be fixed for a number of years. However, even in this case, price should not be the only consideration when deciding best value. Quality of service and the degree of connectivity between the bank and the charity are also important determinants.

Consider whether to change your banking partner

Should charities go through a formal tender process for their bank every few years? This is difficult to answer, as each charity will have a different relationship with their bank. For many charities, a tender every five years is the norm, but others have maintained relationships with their banks for over 100 years. If you are unhappy with your bank's appetite to support you, then there is a strong argument for going through a tender process to select a new bank.

The key steps for the tendering of any organisation's day-to-day banking requirements can normally be structured into three areas:

- Evaluating the existing relationship;
- Deciding between a Request for Information (RFI) or a Request For Pricing (RFP);
- Deciding on whether to employ outside consultants to run an RFP process. For this route, absolute clarity is required on the success criteria and associated costs.

Evaluating the existing relationship

Ideally, an annual review should be undertaken with your existing bank in the first instance. This will enable you to share your vision, strategy, and market trends, as well as the possible impact to your operational requirements, with your banking partner (and vice versa).

Making an RFI (Request for Information)

Management Information (MI) and Information Technology (IT) are critical for charities these days. For example, charities can now receive data on their donor base and reporting on shop receipts. Back office functions can also be streamlined and IT can replace the drudgery and cost of manual intervention, enabling resources to be re-assigned to more valuable roles.

> "If you are unhappy with your bank's appetite to support you, then there is a strong argument for going through a tender process to select a new bank."

A detailed cash management review may therefore be a worthwhile enterprise. Ensuring that fundraising, IT, and operational personnel are engaged in this process will mean that the conversation encompasses all aspects of the charity's financial wellbeing. The larger cost savings may well be hidden within your own organisation.

Understanding what to ask during an RFP (Request for Pricing)

If a full RFP is your chosen route, a small number of banks should be shortlisted to present their proposals to you. Key questions to ask at this stage are:

- How will the bank's MI link with your IT?
- Will the team presenting the proposal be the team that actually look after you in the long run?
- Do they understand your charity and the sector you operate in?
- Are they able to provide you with references of other charities they have worked with, so that you can talk to them to substantiate the quality of service they provide?
- Is the reference specific to the individuals, or a generic reference?

If you commit to a bank for five years, a lot can change. Therefore, you may also want to ask questions around innovation:

- How will the bank respond to change as the financial services industry develops and changes, and as your charity evolves?
- What plans do they have to provide innovative products and services?
- How will they help you ensure that you are using the latest products to keep your costs as low as possible?

Finally, there are a number of news stories about banks closing charities' bank accounts where they no longer meet their criteria. For this reason, it's important that you assess the risk appetite of the tendering banks. This can be difficult as risk appetite can change over time, but if your charity is operating in sensitive parts of the world, you need to ensure that you are clear about what you need from the bank, and specifically detail the countries you work in, in order to ensure that the bank can support you going forward.

If your charity does suffer the loss of banking services or is having problem with overseas transactions, please contact (in confidence) the CFG policy team (policy@cfg.org.uk) who may be able to assist you.

David McHattie
Head of Charities, Barclays

SECTION 5: BANKING AND INVESTMENT

THE THREAT OF DE-RISKING CONTINUES TO HAUNT CHARITIES

> **"Regular communication with your bank is critical. A lack of communication creates uncertainty, which in turn leads to caution."**

Over the past few years, a trend has been noticed in the charity sector where organisations find it harder to transfer money overseas, open new bank accounts or even, in some cases, see their existing bank accounts closed. CFG's Andrew O'Brien investigates.

Banks are trying to reduce the risks of being fined or sanctioned by regulators by reducing or more closely monitoring banking activity. Increasing compliance in itself is no bad thing, but for many charities, de-risking is becoming a barrier to them carrying out their charitable activities.

2016 started with the Financial Conduct Authority (which regulates banks) commissioning research into this issue which found that charities were facing problems in accessing banking services. This has helped to get more profile for this critical issue. There were three main reasons for this trend identified in the report.

Firstly, the world is increasingly seen as fragile and many charities are working in close proximity to potential terrorist and criminal threats. The Middle East, with ISIS continuing to hold large amounts of territory in Syria, is seen as more unstable. The UK Government has pledged over £1bn to helping refugees and humanitarian assistance for Syria, and UK charities have spent hundreds of millions more in support of the people there. But it isn't just limited to the 'usual suspects'. CFG has spoken with charities that have had difficulties in places such as East Africa and South America, where banks are judging that the risks of transferring money to these places outweigh the potential rewards.

Secondly, there is simply no commonly accepted method of identifying criminal or terrorist financing risk. Although charities have been judged as 'medium-high' risk in the UK's National Risk Assessment (despite admitting that actual evidence of abuse is rare) – the truth is that banks don't really know what the characteristics are of an organisation that is likely to be abused. This means that banks fall back on very generic methods for reducing their risk – for example, not sending money to Country X or increasing due diligence on transactions. Until they get better at identifying the real risks, there is not likely to be much respite.

Finally, there is the 'tone' of regulators and governments which makes banks nervous. On the one hand, governments around the world continue to support the work of charities and particularly want to see humanitarian assistance reach those that need it. On the other hand, the rhetoric around ISIS and terrorist financing is very strong, and banks are still smarting from large fines which have been given to them for being found to break sanctions or having their banks abused for money laundering purposes. This means that banks are cautious and are not in the mood for giving charities (or anyone else) the 'benefit of the doubt'.

However, there has been some progress since last year. Over the summer, the Financial Action Task Force (FATF) which sets global standards on rules for combatting terrorism and criminal financing, clarified that charities were not 'particularly vulnerable' to abuse. This is important as previously, guidance had specifically referenced charities are being an area where governments (and by extension, banks) needed to pay close attention. A global coalition, with UK charities such as CFG and Charity Commission playing a key role, led an improvement and also made clear that governments need to avoid regulations having a disproportionate impact on legitimate charitable activities. This change is going to take time to have an impact, but it is a start and with the UK due to have a FATF review of its terrorist and criminal financing regulations in 2017, we have an opportunity to embed this change further.

There has also been continued dialogue with the banking sector and government, with a positive acceptance on both sides that something needs to be done. The issues facing charities, particularly those working overseas, are challenging but all sides are agreed that something needs to be done. This gives a good platform for 2017, although arguably this is still too slow for the many millions of people that depend on charities being able to carry out transactions speedily and effectively.

Increasingly, there are things that charities can do if they want to keep access to their banking services. Regular communication with your bank is critical. A survey of our members conducted for our Banking Forum in the summer, found that nearly 60% of respondents did not regularly discuss work or future plans with their bank. A lack of communication creates uncertainty, which in turn leads to caution from banks. Charities can improve their banking access by being more open, having more regular dialogue with their banks and building better relationships. Shopping around for those banks that have good relationship managers or services, for example, is another way that charities can help themselves.

Charities also need to think carefully about the due diligence and governance. Many banks are simply not aware of the steps that charities are already taking to improve their due diligence and make sure that money reaches the locations it's intended to reach. Charities need to make them aware, and demonstrate their robustness. Trustees also have to be carefully considered. Unfortunately, given the reasons above, many banks see foreign nationals as Trustees (particularly from fragile parts of the world) as a 'red flag' and this is likely to lead to issues. Charities need to think carefully about how they get the right balance between getting the expertise and independence of their Board, with the need to have the confidence of their bankers.

These issues are not going to go away in 2017 and charities need to build in time for working these issues out when making work plans, particularly overseas. Let's hope that next year there'll be better news to report.

This article first appeared in the December 2016/January 2017 edition of Charity Times.

Andrew O'Brien
Head of Policy and Engagement, Charity Finance Group

SECTION 5: BANKING AND INVESTMENT

REPORT FROM CFG'S INVESTMENT CONFERENCE 2017

"Charities had already seen positive and negative impacts as a result of the fall in value of sterling. Some reported an uplift in domestic tourism, others a rise in the cost of overseas grants."

In January, CFG held its Investment Conference 2017. Instead of a 'conference' style format, delegates were seated at round tables hosted by CFG's corporate partners. The aim of this new approach was to generate lively discussions around three topical issues, and to give delegates and hosts the chance to meet more people.

It also enables CFG to report back, so that the discussions and thinking can be shared with people who couldn't make it to the conference.

Whilst of course there's no substitute for being there on the day, the following is a report of some of the discussions, which we hope you find interesting. With many thanks to three of our hosts: Investec, Sarasin & Partners and Quilter Cheviot for facilitating discussions and writing up session notes.

Investment 2017 was framed around three plenary sessions by invited speakers:

1. **The Shifting Nature of Funding**
   Andrew O'Brien, Head of Policy and Engagement, CFG
2. **Managing the Challenges of Governance**
   James Brooke Turner, Director of Finance, Nuffield Foundation
3. **The UK's Decision To Leave The EU**
   Trevor Williams, Chief Economist, Lloyds Bank Corporate Markets

Session 1

CFG's Andrew O'Brien spoke to the Conference about the changing landscape of funding, and its impact on decision-making around investments and reserves.

General funding environment

In the discussion that followed, delegates expressed concerns around austerity and the difficulty and lead-in time in securing grant funding, which hit small charities the hardest. Conversely, there was a feeling that bigger charities are growing and taking a much larger slice of the fundraising pie – brand recognition is critical.

Funding is also unpredictable which makes it difficult to plan. Where funds have been withdrawn from an on-going programme, it's not only beneficiaries that suffered, but also the charity's reputation. Some charities, however, reported that they had had recent successes with lottery funding.

There was a mixed experience of fundraising among delegates, with a couple that didn't fundraise at all, and one of whom was about to embark on fundraising for the first time. In this instance, Trustees were mindful of new regulations and keen to ensure an appropriate framework was in place.

While many agreed that the pressure on staff costs and pensions is being exacerbated, some pointed out that the increase in the National Living Wage is welcomed as a positive development for their beneficiaries. The continuing negative press coverage of charity fundraising is damaging and it's difficult to change the public's perception. It will only happen with a continuous, collective effort from the Charity Commission and all umbrella organisations.

One table noted that charities are taking a much more robust approach to governance, although given their resources, small charities found it more difficult. Finally, many felt that we need to challenge Government for better demarcation between the state and the voluntary sector's responsibilities.

Partnerships, joint ventures and mergers

While there's a generally positive view of partnerships and joint ventures, some had looked at building partnerships but these had rarely worked and exacerbated operational inefficiencies.

Mergers are seen as much more of a challenge, because of the need to unify Trustees and staff across different organisations, and the cost and the time involved. It was recognised that most mergers happen to protect beneficiaries where a charity is in difficulty.

Concerns were expressed around the potential loss of local connection when charity mergers were purely predicated on efficiency savings and perhaps an umbrella structure may be a more appropriate route to take.

Investment v reserves

A common thread throughout this discussion was the negative impact of reserves on donor perceptions, with donors raising concerns about growth in reserves.

On one table, charities felt their own specific characteristics were more important than any macro-economic impact from funding. Recent strength in investment portfolios had prompted one charity to proactively start to run down reserves. This opened up the issue of CC19 encouraging charities to build up reserves for a rainy day.

One charity had been improving its buildings and services funded from the investment portfolio. If there was an impact from higher wages and inflation, they had other financing options available such as cheap loans and other grants.

Another charity described how income from fundraising and trading was far more important to them than investment, so investment strategies weren't key for them. Some charities do consider today's requirements for preserving investments for future generations but often portfolios are not substantial enough to make a meaningful difference.

Session 2

James Brooke Turner's presentation on governance highlighted the huge variations across charities, in both size of portfolios, governance structures, and ability to buy-in specialist consultancy. However many of the points he made resonated with charities of all sizes.

Funding structures and size of portfolios were both key factors in determining acceptable levels of risk, return trade-offs and the degree of involvement that Trustees had in managing a charity's investment portfolio. Charities represented at the Conference varied significantly in their primary source of income generation, with some securing funding through subscriptions and memberships and others depending primarily on their portfolio for income.

Investment committees

Concerns were raised over how to deal with a committee which did not have the expertise particularly around understanding and setting a risk budget that was appropriate for the organisation. In addition some expressed concerns about Trustees being overly cautious through fear of rather than making decisions for the long-term future of the charity, and noted the need to ensure that the amount of time devoted to discussing investments was commensurate with its importance to the charity as a whole.

Another issue raised was the importance of ensuring the Board, investment committee and decision-making wasn't dominated by one person who was seen as expert in investments, even if they are an investment professional, with some commenting that it was worthwhile reminding the board of the 'equal voice and equal responsibility' ethos.

For some, a lack of dialogue between Boards and investment committees had proved problematic, but they had mitigated this by having a lay trustee on the finance committee, who could also give an objective view of any changes in a charity's operating environment which might influence its investment strategy.

When to source expert help

When should charities employ an investment consultant? And if you do employ one, how do you ensure they're working hard for you? Again, there was a split between those charities who either couldn't afford external support (or who felt it was difficult to justify it) and those who could.

SECTION 5: BANKING AND INVESTMENT

Questions were raised and discussed about how effective charities are at challenging their investment managers, with some reporting that rather than setting the agenda, investment committees were following that of their investment manager.

Small charities should not feel like second-class citizens. In a competitive market with a wide variety of investment managers, small charities should have high expectations and challenge their investment manager where they feel unloved.

Clear communication between the charity and its investment manager about Trustees' expectations on the remit and level of service is critical. Charities should review investments regularly and serious consideration should be given to whether the manager is value for money and delivering the returns that enable the charity to meet its objects.

Asset allocations

For some, asset allocation decisions are made by the charity itself if they have an experienced investment team on board. However, for charities who don't have this capacity it is likely to be a two way communication between the charity and the investment manager, with or without the involvement of a consultant.

In order to determine the asset allocation policy the charity must decide what it has to achieve in the short term and what it aspires to achieve in the medium and long term. It was agreed that getting advice was essential and mandatory, in line with the Charity Commission's CC14.

To find out more about CC14 and the key principles of charity investment, CFG's Foundation Investment Course was recommended. Offered in association with Sarasin and Partners, the course also covers the Charity Investors' Group advice on writing a charity investment portfolio. The next course is in London on 19 April, and is open to members and non-members: http://www.cfg.org.uk/events/event-information/2017/april/evt31630.aspx

Session 3

Trevor Williams's presentation on the impact of Brexit on charities was welcomed by delegates, with one reporting that it was 'very interesting, albeit sobering'.

Uncertainty around the terms of Brexit, and the possibility of reduced economic activity, which in turn will reduce charity donations and fundraising opportunities, was the overwhelming theme of the discussions that followed. Many acknowledged that the struggle to get the sector's voice heard within Government would be made even more difficult with the political focus on Brexit negotiations.

Charities had already seen positive and negative impacts as a result of the fall in value of sterling. Some reported an uplift in domestic tourism, others a rise in the cost of overseas grants. In terms of investments however, the fall in sterling had been one of the drivers behind the FTSE 100 soaring above 7,000 and the increase in value of international investments.

One delegate wondered whether charities should take profits and redeploy funds elsewhere, but the dilemma was to where, as neither cash nor government bonds offer protection against inflation. Maybe social investment was the answer, but charities were unsure how charities should access this. One participant had experience in social investing and warned that it should be considered carefully. If a project is directly linked to a charity's objects, it's possibly worth considering, but it is critical to ensure you seek advice and have a clear understanding of risk versus reward.

One of the biggest concerns following UK's decision to exit the EU was the supply of skilled labour, particularly in the medical and veterinary sectors and the rise in cost of imported goods. One educational charity voiced concern over freedom of movement for fellows and students, and the availability of EU research budgets.

Were there any silver linings? A possible relaxation of the rules of irrecoverable VAT and the wider regulatory framework were mooted, but most relented that the latter was very unlikely.

Next year's Investment Conference will be held on 22 February 2018.

For a full list of CFG's conferences, see www.cfg.org.uk/events

Kate Bines
Head of Marketing and Communications, Charity Finance Group

INVESTING ETHICALLY

THE IMPACT OF ETHICAL INVESTING ON RETURNS, VOLATILITY AND INCOME

What impact does the exclusion of 'sin' sectors like tobacco, alcohol and weapons have on a charity's investment portfolio? Rob Stewart from Newton SRI Fund for Charities outlines findings from a new piece of research.

Despite an increasing number of charities adopting ethical investment approaches, there have been few studies of the impact of imposing ethical constraints on an investment portfolio.

Against this backdrop of minimal research, we commissioned Dr Chendi Zhang and Dr Lucius Li of Warwick Business School to analyse the impacts of commonly-applied ethical screens, with the aim of providing an independent, academic starting point for charities considering implementing an ethical policy.

Size and scope of the study

Dr Zhang and Dr Li's paper considers the more traditional 'sin' sectors – tobacco, alcohol, weapons, pornography and gambling – as well as fossil fuels, a sector which has become an area of focus more recently. The research, which covers a sample period from 2004 to 2015, evaluates the impact of exclusions in three ways: in terms of performance, yield and volatility. Through their analysis, Dr Zhang and Dr Li looked at over 10,000 stocks in 28 developed and emerging markets and 1,283 US corporate bonds.

Key findings: The impact of the five key 'sin' screens

Dr Zhang and Dr Li's findings clearly indicate that the traditional 'sin screens' have in general reduced returns over the period (see exhibit 1). While it is intuitive that a restriction on the investible universe reduces returns, the size of the performance reduction is perhaps less than expected.

Within those headline numbers, there have been significant variations between regions. Furthermore, excluding the traditional five areas does not reduce returns in all regions – in Europe (ex UK) the sin screens had a 0.01% p.a. positive impact on performance.

The individual screens themselves have also shown significant variability. For example, excluding alcohol in the US had a negative impact of -0.03% p.a., while in the UK it benefited performance by 0.57% p.a.

Impact of 'sin' screens varies over time

During and after crisis periods there were significant reductions in returns from ethically-restricted developed market portfolios. From 2011 to 2013, the reduction in returns from excluding 'sin' stocks was the largest, at -0.9% p.a. Conversely, exclusion of sin stocks had a positive impact on returns (+0.2% p.a.) from 2004 to 2006. This highlights just how much the impact of ethical exclusions has varied over time, as exhibit 1 demonstrates.

EXHIBIT 1: RANGE OF IMPACT OF 'SIN' SCREENS

Region	Range of impact (p.a.)
Developed markets	-0.9% to +0.2%
US	-0.8% to +0.1%
UK	-2.4% to +1.8%

Key findings: The impact of fossil fuel screens

The last two years have seen a rise in interest in charities applying some form of climate change-related restriction to their investment portfolios. Dr Zhang and Dr Li looked at the impact of broad sector-based screens and found no significant impact.

Overall, exclusion of fossil fuel stocks increased returns by 0.02% p.a., lowered volatility by 0.02%, and reduced the dividend yield by 0.03% p.a. The de minimis impact on yield is perhaps surprising given that oil & gas has historically been heralded as one of the best-yielding sectors.

As with the five traditional 'sin' screens, the paper found that the impact of fossil fuel screens also varied considerably over the period of the study, in the UK for example ranging between -0.9% to +1.8%.

A starting point for charities

Ethical investing considers both financial and non-financial aspects of investing. It is therefore important for charities, their Trustees and their investment managers to be aware of the potential impact on portfolio returns, volatility and income when building ethical investment policies. Dr Zhang and Dr Li's research underscores the importance of these considerations, and we hope their work provides some important points for charities to consider.

For more information about the findings and to view the full paper, please ***visit www.newton.co.uk/impact-of-ethical***

Rob Stewart
Portfolio Manager,
Newton SRI Fund for Charities

> **"While it is intuitive that a restriction on the investible universe reduces returns, the size of the performance reduction is perhaps less than expected."**

> **"Do not be afraid to start small; consider your policy as a line in the sand that can shift, evolve, and develop with time, allowing you to consider emerging issues as your understanding improves."**

TOP FIVE TIPS FOR GETTING STARTED IN ETHICAL INVESTMENT

Looking to develop a policy to ensure your investment choices reflect your organisation's values? Emma Robertson from Waverton Investment shares expertise to help you get started.

With new generations of Trustees joining the ranks, and charities coming under increasing scrutiny, continued education remains as important now as it ever has been. Charities considering the application of an ethical investment policy are faced with a myriad of approaches and apparently interchangeable terminology and acronyms; so where do you start?

Here are my Top 5 Tips.

What does the Charity Commission say?

The Charity Commission's guide for Trustees on investment matters, also referred to as CC14, sets out the legal and good practice framework for the investment of charity funds.

CC14 states that Trustees can decide to invest ethically for the following three reasons:

- A particular investment conflicts with the aims of the charity; or
- The charity might lose supporters or beneficiaries if it does not invest ethically; or
- There is no significant financial detriment.

What does this mean for charities?

Trustees can adopt any ethical investment policy they reasonably believe will provide the best balance of risk and reward for their charity, but they should ensure that they outline their justification for the ethical policy; in particular why they consider it in the charity's best interest to invest in this particular way.

What is your objective for the policy?

With the Charity Commission's guidance in mind, Trustees should outline what they consider to be ethical in line with their charity's aims and objects. Linking mission to investments is not always clear and simple, so consider the following questions:

- Why do you want to invest ethically?
- What are you trying to achieve/say with your policy?
- What resources might be needed to action your policy?

Based on the answers to these questions, you can consider the different types of ethical investment approaches available in order to achieve the ambitions of your policy.

There are three main approaches; negative – screening and avoidance of particular issues; positive – reflective of the charity's values or a best in sector approach; shareholder activism – exercising voting rights. Research and consider each option ensuring that you understand what that will mean for your charity in terms of resources required and potential financial impacts.

Start developing an outline of your policy

Each charity's policy, and the structure of it, will differ depending on its objectives. This process will take time and careful consideration. Remember that Trustees are not free to use their investment powers to make moral statements at the expense of their charity, so be careful to keep personal ethics off the table and ensure that you document your process and the decisions you have made, referring back to CC14 where necessary.

What are the potential impacts of your policy on your investments?

Consider whether or not the policy relates to direct and/or indirect investments. You must ensure that you can demonstrate the impacts (both positive and negative) that the implementation of an ethical investment policy might have on your investments and your investment targets. Charities are operating in an increasingly demanding and accountable environment so it can be very useful to get advice, particularly at this stage.

"If Trustees have considered the relevant issues, taken advice where appropriate and reached a reasonable decision they are unlikely to be criticised for their decisions or adopting a particular policy"
Charity Commission, CC14

If you have existing investments take the time to communicate with your investment manager and ensure that you both have an understanding of the definitions underpinning your policy. This process will also allow you to assess whether or not your investment manager and the way in which you are currently invested can accommodate or implement your policy.

Once you have reached a decision, write it down and set out both the aims and any exclusions, which will demonstrate that it has been clearly thought through.

Monitor and review

From experience, this process takes time and careful consideration to ensure it is clear, consistent and understood. Regardless of the direction you take, ensure that you review the policy on a regular basis. The best examples are the policies that have been clearly thought through and communicated. Do not be afraid to start small; consider your policy as a line in the sand that can shift, evolve, and develop with time, allowing you to consider emerging issues as your understanding improves.

There is no one-size fits all approach to ethical investing and weighing up these risks and considering this process can seem daunting. However, with careful consideration and the right team behind you it is achievable, as increasing numbers of charities are already demonstrating.

Emma Robertson
Charity Business Development, Waverton Investment Management

06

RISK MANAGEMENT AND FRAUD PREVENTION

IN THIS SECTION

CURRENT PERSPECTIVES ON CHARITY RISK MANAGEMENT

Managing risk should be more than a box-ticking exercise. To do it effectively, you need to think beyond the confines of your risk register says Sayer Vincent's Jonathan Orchard.

Last year we launched our guide to risk management in partnership with CFG. We gave it the title, *Re-thinking Risk – beyond the tick box* as, in our experience, charity risk management has rarely gone beyond being a compliance task. Every charity has to make a risk statement in their annual Trustees' report and, to be able to do this, has developed a risk register.

What value do risk registers provide? They generate a long list of risks and a lot of subjective discussion on scoring. Is this helpful at a Board meeting with a packed agenda? They potentially add value through being a comfort blanket – creating an impression that the charity understands its risks. But is this comfort really an illusion? Does your risk register actually give any real sense of how risk is effectively managed in practice?

> **"Risk management needs to be brought to life by always considering the risks involved in key decision-making. What are the alternative scenarios? Do we need a contingency plan? Keeping asking the 'what if' question."**

What might smarter risk management look like?

What value can realistically be expected from risk management? Why would we bother focussing scarce time resource into it?

The overall objective of a charity's risk management programme should be to help the Board, management and staff to make informed and intelligent decisions furthering the interests of the charity's beneficiaries.

You are much more likely to achieve this objective through:

A clear understanding of what's important to your charity – where you will and will not take risks.

This can be achieved by a simple risk policy setting out where you may want to take risks, for example in a charity's advocacy and where the charity will be zero tolerant to risk, for example the safeguarding of vulnerable beneficiaries. This gives a clear direction on risk appetite from the Board to the management team and helps ensure that delegated decisions are made with risk appetite in mind.

Keeping the Board focus on the big-picture risks and delegating operational risk management to the management team.

A tool for doing this is our 'Big-5' model. This gets you to the risks that matter without going through a subjective scoring system. The basic premise of the model is that Board should focus on just five headline risks. These five risks might be:

BIG-5 MODEL	
Impact	Are you making the desired impact in support of your beneficiaries and can you evidence it?
Financial sustainability	Are you managing the finances to ensure you continue to make an impact in the medium to long term?
Compliance	Are you meeting your regulatory, legal and donor compliance requirements and expectations?
Reputation	Are you able to respond effectively to any incident that could result in damage to your reputation?
Specific to the charity	Specific to the nature of the charity and may be a risk that is at the heart of what the charity stands for. For example, for a children's charity it might be child protection.

Scenario planning and open discussions of pros and cons in key decision-making and project planning

Risk management needs to be brought to life by always considering the risks involved in key decision-making. What are the alternative scenarios? Do we need a contingency plan? Keeping asking the 'what if' question.

An interesting way of thinking this through is by carrying out project 'pre-mortems'. These are thought processes at the outset of a new project which suppose that the project is complete. If the project has been a success why would that have been? If the project was a failure what would the root causes of that failure have been and how can we design these causes out of the project plan?

SECTION 6: RISK MANAGEMENT AND FRAUD PREVENTION

Getting assurance

There can still be a role for risk registers – they are much better suited to oversight of operational risk – where discrete risks can be assigned to individual managers and controls developed to reduce the likelihood of risks crystallising.

However, big-picture strategic risks are often cross-cutting, cannot easily be assigned and cannot be managed through micro-level controls. And critically, risk registers do not clearly communicate how effectively a risk is being managed. Instead, how can an individual Trustee have confidence in how key risks are being managed? Firstly, they need to understand where the assurance is coming from.

This can be brought together into an assurance framework. For example, one Board decided their key risks were the ones in the table below, and identified at a high level how the management structures provided oversight and control in these areas.

ASSURANCE FRAMEWORK

RISK	INFORMATION & EXISTING PROCESSES
Quality of service to beneficiaries	Beneficiary feedback Quality assurance audits
Financial sustainability	KPIs Management accounts
Compliance & reputation	Incident response plans H&S committee
People	HR handbook Performance management systems
Safeguarding	Safeguarding policy Staff training

Communicating risk

SORP 2015 gave charities a really helpful opportunity to develop more clarity on key risks and how they are being managed. It introduced the need for a 'large' charity (over £0.5m income) to make an expanded risk statement, beyond the rather meaningless boilerplate wording most used previously.

The SORP 2015 requirement is for a risk statement to include a 'description of the principal risks and uncertainties facing the charity ….together with plans and strategies for managing those risks.'

For me, this new requirement provides a real opportunity for charities to embrace the transparency agenda, flag where they face challenges but also to state specifically where they will take risks – both in pursuing new opportunities and seeking the best impact for their beneficiaries.

In the current climate of increased public scrutiny of charities, this extra disclosure is an opportunity to communicate why you work as you do. For example why you need to pay for experienced and able staff, why you need reserves, why you need to exploit all income generating activities etc.

Most charities will now have filed accounts under the SORP 2015 regime. There are some excellent examples out there of risk statements where the charity clearly does understand its risks and its risk management processes. But there are many others who have yet to embrace this opportunity and/or for whom the risk statement and their risk register tell very different stories.

Progress is being made but there is still more that could and should be done before smarter risk management becomes widespread across the sector.

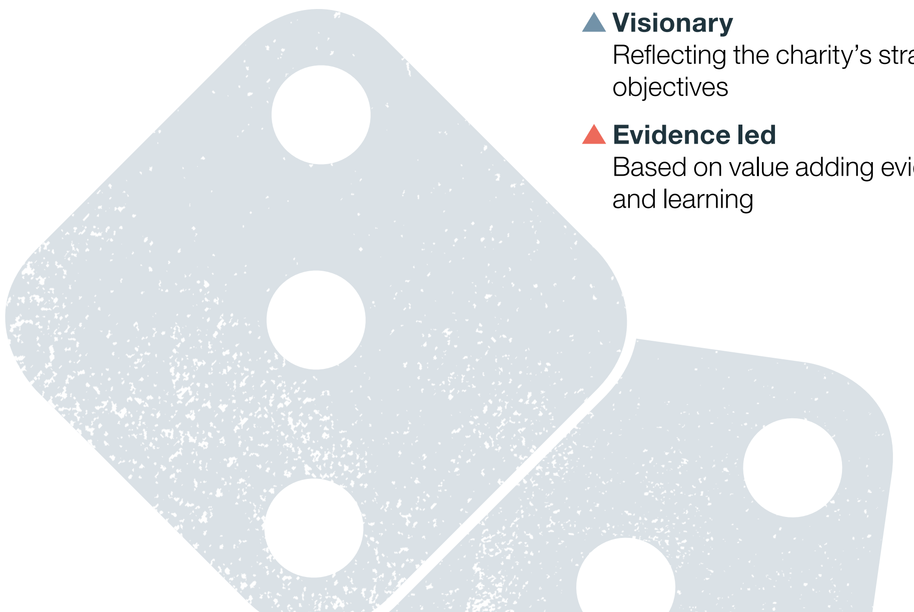
Jonathan Orchard
Partner, Sayer Vincent

Re-thinking Risk – beyond the tick box *is published by CFG in partnership with Sayer Vincent. Aiming to help charities effectively manage project, operational and strategic risks, it contains practical steps to follow, case studies from charities, and a variety of different methods to ensure managing risk is not simply a 'tick box' exercise.*

Download your copy at ***www.cfg.org.uk/resources/publications***

SAVE FINANCIAL PLANNING

Charities are different than mainstream businesses and that means taking a different approach to planning and budgeting. Nick Dugdale outlines a way that charities can plan for the future and retain their ambition for their beneficiaries – SAVE Financial Planning.



SAVE Financial Planning principles

I was delighted to be awarded the Adrian Randall Challenge Prize for excellent, inspiring practice in relation to charity financial planning, risk and reserves management by Charity Finance Group (CFG) towards the end of 2015. As part of my project with CFG, I have been investigating the potential benefits and barriers to the Secure, Adaptable, Visionary and Evidence-based (SAVE) financial planning approach that I have developed.

I believe that the critical principles underlying successful charity budgets and plans are:

- **Secure**
  Demonstrating funding security to management
- **Adaptable**
  Agile and adaptable to opportunities and threats
- **Visionary**
  Reflecting the charity's strategic objectives
- **Evidence led**
  Based on value adding evidence and learning

What is unique about financial planning in the charity sector?

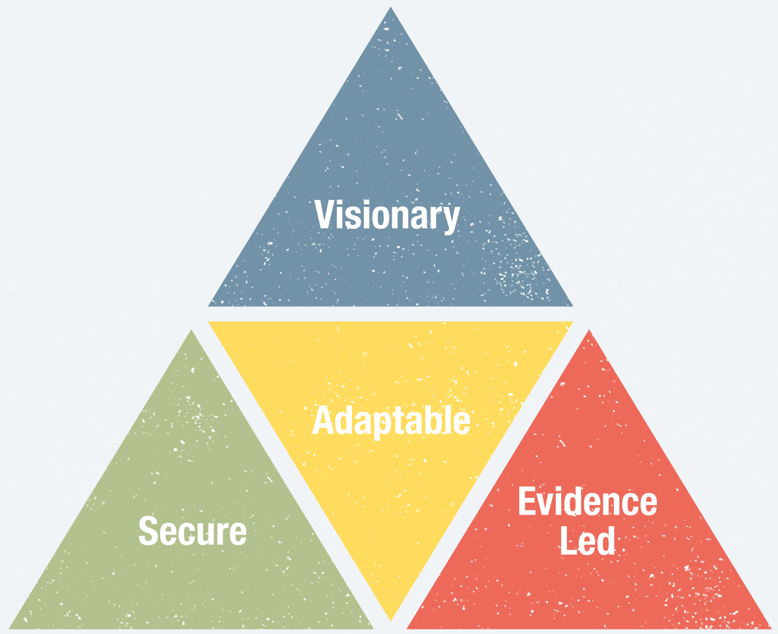
The charity sector is unique, hugely ambitious, and incredibly important for our society. It is important that we understand what differences might affect the way we budget and plan activities.

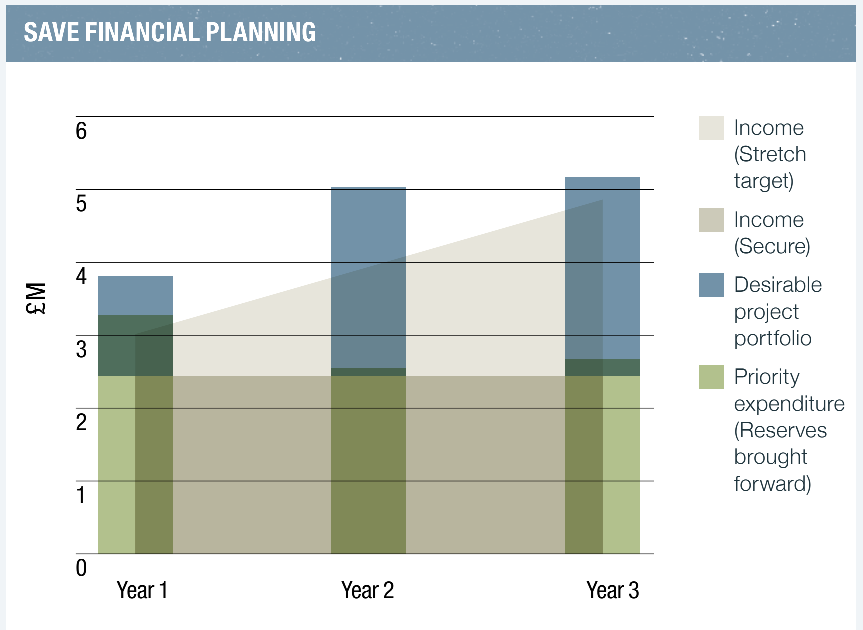
The owners of charities are not investors but are stewards of the charity on behalf of the public. This difference is said to contribute to a more risk averse culture with proportionally fewer charities either failing or achieving significant growth compared with the for-profit sector. Financial risk in the charity sector is not externally evaluated in the way publically-traded companies are through market value. Donor and public scrutiny of the use of donated funds is high but there is a lack of understanding of the financial information available and inconsistent terminology makes it difficult for stakeholders to see the true financial risks that charities face.

I am hugely proud of our charity sector. My point is not that it would be good for the sector to be investor led or publically traded but that we need to understand how these differences affect our financial planning.

The 2016 ACCA report, *State of the non-profit finance function*, argues "Sector membership bodies (such as SEUK, CFG) can work with bodies such as ACCA and others to provide guidance on accounting, with an emphasis on the governance of a non-profit and the need for long-term planning."

I propose that a SAVE financial planning approach allows reserves and future income to be used in the most effective way possible and has a myriad of other benefits that specifically address issues relevant to the charity sector.





"The owners of charities are not investors but are stewards of the charity on behalf of the public. This difference is said to contribute to a more risk averse culture with proportionally fewer charities either failing or achieving significant growth compared with the for-profit sector."

An example of what SAVE Financial Planning might look like

Income (Stretch target)

- ▲ Income targets should be SMART objectives and not just forecasts. They need to be achievable but challenging and should reflect the charity's ambition.
- ▼ Adapt when an unprecedented donation is received at the start of the year.
- ▲ Targets should be based on organisational need, past performance, and market analysis.

Income (Secure)

- ▲ Secure income is not an objective. It is an income forecast of what the charity is highly confident in achieving.
- ▼ Adapt when a critical long term income relationship ends.
- ▲ Secure income forecasts should be based on past performance and market analysis but not, importantly, on need.

Desirable project portfolio

- ▲ This project portfolio is intended to allow the charity to be ambitious with their plans and build a case for additional activity and impact.
- ▼ Adapt when a strategic opportunity emerges.
- ▲ These plans should be realistic and built on evidence.

Priority expenditure (Reserves brought forward)

- ▲ This includes planned expenditure from restricted and designated fund balances at the start of the year.
- ▼ Adapt with changes to restrictions or designations.
- ▲ These plans have additional stakeholder scrutiny which necessitates robust evidence.

Priority expenditure (Secure)

- ▲ This includes planned expenditure from secure income. It is important to stress that this is still unfunded but the organisation is highly confident that it will be able to fund this expenditure.
- ▼ Adapt when a strategic priority changes.
- ▲ There should be significant historic evidence available and a good organisational understanding of the underlying trends related to this core budget element.

On the following page you'll find three case studies from 2016:

WWF UK
Ian Smith, Head of Management Accounts

Compassion in World Farming
Philip Lymbery, CEO

Plan International
Annemarie Moore, Group Treasurer

WWF UK case study

Ian Smith
Head of Management Accounts
June 2016

We need to know what we can hang our hat on
We determine the funding security of each project by looking at their funding mix. Understanding our funding security enables our programme delivery teams to have continuity in their longer-term planning.

A big swing in income can happen very quickly and we need to be able to respond
We try to look ahead three years every quarter. A fall in our income projections between quarters can cause concern internally as to how things could change so quickly. We have to understand why the forecasts change and know how we will respond. We accommodate this by having a programmatic pipeline highlighting both the minimum funding requirements of each project and their total funding need.

Targets, beyond baseline income forecasts, are necessary to achieve our ambition
There is a concern that a downwards income projection can become a self-fulfilling prophesy. Separating our income target and baseline income forecast allows us to distinguish between what funding is secure and what our ambition should be.

Evidence is probably the most valuable thing to have
We build our plans on evidence as much as possible so that we can learn what works and what we might need to do differently. We have a table of assumptions behind all income and expenditure lines. Some areas are much more robust and have a lot of evidence. Evidence is owned by the budget manager but we would go through it with them and advise what we would do. The Finance team focuses on trends and previous results to question those assumptions.

Compassion in World Farming case study

Philip Lymbery
CEO
August 2016

It is important to have confidence around the money you're going to raise and build your programmes year on year on the back of it. A lack of confidence will hold things up, make it difficult to retain good people and affects the impact of your work.

You have to include finance and fundraising in your risk assessment. I've known organisations that have chased very big gifts and had them fail due to lack of confidence of the donor in the financial rigour of the organisation. We have a finance committee with outside expertise and our auditors with external scrutiny throughout the year which helps planning our budgets and the general health of the organisation.

It's vital for a charity to be able to adapt to changing mission delivery or financial circumstances
We have to adapt to the political and social environment around us. Being able to adapt is vital for an effective strategy. We just do it – you have to. Change is inevitable and we manage the organisation around a rolling change programme and budgeting process updated every quarter.

One of the barriers is departmental weddedness to what they were going to do and the way they do it. Rebooting the way that we do things, adjusting the strategy, the big picture. This can take a bit of time primarily though getting key staff leaders to buy into the change in the way they work. This isn't always easy.

A charity without a vision is a charity without a purpose
You are more likely to get people behind you when you can articulate a compelling vision. I think the vision is paramount. Plans that do not follow the vision have no place in the budget.

We're a small charity fighting a big problem. Achievement of our vision is regrettably decades of work. We haven't costed out what our achievement of our ultimate vision will cost. The key is to have a plan that will work towards your vision. When you are trying to solve a complex multifaceted problem there isn't a plan to be able to solve that problem. Of course you have interim milestones so you understand what interim success is like. It changes all the time and is unpredictable.

We are an organisation seeking to get to a tipping point where the agricultural sector achieves its own momentum. We have seen in the US a tipping point of cage-free eggs where the top 35 companies have pledged to go cage-free. We could have not planned for the root to spark that tipping point. We built a relationship with the CEO of McDonalds UK 10 years ago and had already gone cage-free on all of its eggs and, through the engagement, we got the same pledge across the rest of Europe. That CEO then became the CEO of McDonalds USA. We then used this contact to facilitate a policy change from McDonalds USA. That commitment sparked a domino effect across the USA's retail and restaurant chain industry. We couldn't have foreseen that happening, as for us, the milestone was getting retail organisations to move to cage-free.

Building a financial plan based on evidence is really important
It gives you confidence that it is robust and will help when selling to donors who will see through plans built on sand. The evidence we use is based on comparators, what other organisations have done, or based on past programmes. It is obviously not an exact science but it does build confidence.

Plan International case study

Annemarie Moore
Group Treasurer
August 2016

How do you fund the ambition of Plan International?
Funding is now less secure as a result of moving to payment by results contracts and managing funding has, therefore, become more valuable. NGOs tend to obtain working capital for pre-finance from cash balances rather than the traditional bank loan route that other business types use for working capital. That makes the monitoring, analysis and control of fund allocation very important.

Reserves allow change
It is incredibly important to optimise cash. To allow change NGOs need to understand what their cash reserves are along with projections. Security of cash can bring the confidence to grow or implement a new strategy.

Vision can help the financial planning process achieve our strategic objectives
Financial planning can help to align our fundraising with our strategic need. It should be very closely linked to strategy and is part of a feedback loop. A charity needs to meet the requirements of beneficiaries but also promote these requirements as a vision to potential and existing donors.

Evidence is key
Otherwise forecasts tend to be sometimes of a lesser quality and over-optimistic. Project managers often condense their projects into a shorter period of time that doesn't reflect the cash flow reality. Past trends are key to how we manage this from a treasury perspective. Lots of organisations understand that you have to overlay the forecast with the reality. It's a task of mine to show the members and the field the contrast between the evidence and the forecast in order to build realistic forecasting.

Nick Dugdale
International Financial Planning and Analysis Manager, Compassion in World Farming

RISK – DON'T BE A WICKED AND SLOTHFUL SERVANT

Risk is not something that charity executives manage on their own; it is also a central responsibility for Trustees. Getting the balance between executive and Trustees can be tricky, but they need to work together. Gary Laskho, Chair of Revolving Doors and CEO of the Royal Hospital Chelsea shares his experiences.

Conversations between governing boards and executives about risk can easily get bogged down in detail, focus on the wrong things, and become a fencing match to show each other how clever they are at either spotting problems or providing solutions. There needs to be a proper separation of roles between governors and executives, and quite different sets of behaviours, but all within an agreed well-understood culture.

This culture needs to be one of mutual trust, openness, frankness, learning, and accountability. Without this culture, executives are unlikely to discuss or identify freely the issues that contribute to risk. Boards need to feel and act as though they are accountable to the regulator or to the general public in their role of fiduciary Trustee, but they also need to find good ways of holding the executive to account.

When it comes to risk, governing boards need to bring an outside perspective and experience to bear on internal issues, and ask questions rather than provide answers or detailed directions. Boards need to push the executive to provide answers because in doing so we get to understand how well equipped the executive team is to handle the risks faced by the organisation.

In my experience, healthy risk strategy development needs to be based on a number of important factors in equal measure:

1. accurate identification of the causes of risk;
2. evidence-based assurance of the risk mitigation controls or actions;
3. a well thought through statement of risk appetite.

Risk management by executives, or risk oversight by boards need to be grounded in a meaningful set of performance indicators, proactive escalation procedures, and real brakes that can be applied. Prevention being better than cure, of course.

In this context, it is very important to flag up key areas of non-performance or risk build-up, in an open and timely way, and to learn the lessons required to restore the equilibrium. Three key tools to help boards and executives do this are:

1. KPIs, and explicit time-bound escalation system right up to Board level;
2. regular reviews of outcome times on risk management actions;
3. an annual review of assurance levels.

> **"Some risks – even quite significant risks – might be worth taking, depending on the mission and objectives of the organisation concerned."**

The latter can show you where you may be investing too much, as well as too little resource in managing risk.

It is important to understand and respond to how the organisation thinks and behaves about risk at all levels. In organisations providing services directly to people – particularly in care or support – some of the biggest risk impacts can arise from a single interaction between a member of staff and a customer or service user. It can take a lot for a Board to be assured about the risk management of organisations delivering care to groups of people who are already at risk, such as children or older, frail people, or those needing support to maintain their wellbeing.

On the other hand, most active, responsive organisations will wish to take risks in order to develop their offer, improve their services, or expand. In addition, most organisations delivering services to people needing care or support also understand that there often needs to be informed, shared, and managed risk taking by both service user and staff member in order to generate developments or improvements in client outcome. This needs to be part of practice, set out in policy and procedure, trained for, recorded, and supervised.

Just like every individual, each organisation and business is different. Every Board should agree with its executive an explicit risk appetite for each of its main activities and risks. This risk appetite needs to be used in new business appraisals and service developments, and can be used as a steer in higher-level strategic planning. Some risks – even quite significant risks – might be worth taking, depending on the mission and objectives of the organisation concerned. It is good to regularly check out what your current risk score is for an identified activity and see whether or not that is vastly different for the risk appetite score. Focusing on the gaps in performance can help direct resources more efficiently and lower unwanted risk.

No risk, is not an option. There is a very good story told in the Christian tradition by Jesus about the servants of a man going on a journey, to whom he gave money to safeguard for his return (Parable of the Talents).

"He who had received the five talents went at once and traded with them, and he made five talents more. So also he who had the two talents made two talents more. But he who had received the one talent went and dug in the ground and hid his master's money."

He didn't make the most of what he had been given and so his master called him a wicked and slothful servant, and he took away the talents he had given him and gave them to the servants who had used theirs to good effect. A lesson in appropriate risk appetite that we can all learn from.

Gary Lashko
Chair of Revolving Doors & CEO of the Royal Hospital Chelsea

SECTION 6: RISK MANAGEMENT AND FRAUD PREVENTION

TOP TIPS FOR CHARITIES TO GUARD AGAINST FRAUD

> If you're having trouble convincing people within your organisation that investing time into tackling fraud is worthwhile, looking at the potential or actual cost of fraud to your organisation can be a great incentive.

Stories of charities falling victim to fraud are rife: what practical steps can be taken t o help safeguard your organisation against this? Heather McLoughlin explains.

Stories hit the charity sector press recently of another serious incident of fraud hitting an organisation. In this instance, an alcohol rehabilitation charity lost nearly £10,000 after a fake email account was set up in the Chief Executive's name in order to authorise payments.

This, sadly, is certainly not a standalone instance: charities are vulnerable to fraud, and it is therefore vitally important that charities start to look seriously at how they protect themselves from becoming a victim of fraud. Fraud is costing charities millions of pounds every year and at a time when resources are especially tight in the sector, organisations can't afford to be the victims. Fraud can have a damaging impact on the reputation of an organisation as well as on its finances too, so charities must take appropriate measures. Fraud can occur in many different ways. Charities must not assume that they won't become victims because of the good work they're doing.

Here are some tips to help charities improve their fraud resilience:

1. Action is a must!

The motto 'be prepared' should be the attitude taken for tackling fraud. There are always things that you can do directly within your organisation (whether it's big or small) to help reduce fraud. Check the current steps that you are taking to reduce fraud and who is responsible for checking these. Consider updating your counter-fraud strategy to plug any gaps and consider new risks, such as cyber fraud. Having a strong counter-fraud strategy is important in mitigating both internal and external fraud.

2. Understand what constitutes fraud

There are many aspects to fraud, and there may be parts of your organisation which are at risk to fraud that you may not have considered previously. Dedicate time to identify and understand where in your organisation you could be at a greater risk. The Charity Commission has a checklist (see http://bit.ly/cc8checklist) which is a good place to start when looking at areas that might expose your organisation to high risk.

3. Articulating the cost of fraud to your organisation

Tackling fraud requires a strong counter-fraud culture across your organisation. You need to get buy-in from all your stakeholders (internal and external). If you're having trouble convincing people within your organisation that investing time into tackling fraud is worthwhile, looking at the potential or actual cost of fraud to your organisation can be a great incentive.

Having strong counter-fraud policies in place also has the potential to reassure funders. Make sure that your colleagues understand the benefits of being tough on fraud.

4. Set the right tone from the top

Employees should feel confident that reporting suspected fraud will be treated seriously and professionally by senior leaders and Trustees. Encouraging fraud reporting will give people the responsibility to change behaviour to tackle it. Consider getting a Trustee to be a designated 'lead' on fraud and make sure that reporting mechanisms are clearly understood by all staff.

5. Remember that prevention is better than cure

Two-thirds of the financial benefits from reducing the cost of fraud come from changing human behaviour within the workplace. Ensure people are focused on the outcomes to be derived from counter-fraud work.

6. There is no 'one size fits all' method for tackling fraud

You need to find the method that works best, based on the size of your organisation and the kind of activities that you undertake. You need to take a proportionate response to fraud risk, so consider whether the actions you are taking go far enough to protect your organisation.

There are a variety of options, from seeking advice from professionally accredited counter-fraud specialists to reading the Charity Commission and CFG's fraud guides, there are lots of tools at your disposal.

7. Performance manage counter-fraud work like any other area of work

Fraud is a business cost that can be measured, managed and minimised. Counter-fraud work should be integrated into your standard performance indicators. This will also ensure that everyone can see the benefits of a strong counter-fraud culture.

8. Make sure to report instances of fraud

Reporting in the charity sector of fraud is below average compared with other sectors. If your charity has suffered from fraud, then you must report it to the Police (via Action Fraud at www.actionfraud.police.uk/charities) and the Charity Commission, as a serious incident.

Heather McLoughlin
Policy Officer, Charity Finance Group

Countering Fraud – a guide for the UK charity sector by CFG and PKF Littlejohn is designed to help charities actively counter fraud.

This guide will help finance professionals and Trustees to identify areas for improvement when building their resilience to fraud, and moving towards actively managing the risk of fraud.

You can download it free of charge from CFG's website: www.cfg.org.uk/publications

SECTION 6: RISK MANAGEMENT AND FRAUD PREVENTION

WHAT ARE SHELL COMPANIES IN THE CHARITY SECTOR?

Diana Isiye from Oxfam, talks through a prevalent form of fraud facing many charities: particularly those operating across borders: shell or 'briefcase' companies, and provides some tips for charities to protect themselves against this type of fraud.

A shell company may be described as a dormant entity: one that has no physical assets or no physical presence or proper billing address. Many shell entities will however have a bank account which they use to receive money. In some instances they are referred to as 'briefcase companies' or 'mushrooms': suggesting that they operate from a 'briefcase', or that they emerge quickly so as to take advantage of funding in an entity. Charities may be targeted by shell entities in various ways. It may be through the supply chain process, through the grant award process, or the service industry.

An example of a shell company scheme in the supply chain process is where a shell company places a bid in an entity. Should they be selected, they would then procure commodities from another legitimate company and supply the same to the entity. The end result is that goods are delivered at a much higher cost than the market rate.

There are other situations where a fraudster may take up the name of a legitimate entity (usually a dormant entity) and create a fictitious bank account. In this case the charity may be made to believe that they are dealing with a legitimate entity. The same 'shell company' would then proceed with the same modus operandi, which is to procure goods and resell them at a higher price. In this sort of scheme the creation of the bank account may be done through collusion with the legitimate entity, or the legitimate entity may have suffered some form of identity theft.

A common scheme affecting grantors is where shell charities are set up to target these grants. This scheme is most prevalent in cross-border operations, and can affect charities that wish to expand their operations internationally through a partnership with other local charities. The shell charities – also known as 'Briefcase NGOs' (BINGOs) – are created in the same way as a shell company, with a bank account but no physical presence or assets. They go through long processes to make themselves look legitimate; they may even hire qualified personnel to act as their agents in pitching for grants. These hired persons may pose as staff and can easily deceive others. It is also worth noting that there are many organisations that are not in themselves fraudulent or corrupt, but they do operate out of a 'briefcase', scrambling to conduct delivery only when engaged, these are high-risk and may be mercenary.

A good number of shell entities can be seen in the service industry. An example is where such shell entities may pose as highly qualified consultants in particular fields. These 'shell consultants' usually do not have the required credentials nor offer the services they say they provide. Rather, when engaged they will look for expertise by hiring another person to do the work they have been employed to do. The charity engaging such a consultant may find that the service delivered is costly or the services delivered do not meet the expected standards.

Shell entity schemes may go undetected for a long period, especially where there is collusion between a member of staff and the shell entity. This collusion is important to ensure that internal controls are overridden and that funds to the shell entity flows smoothly.

How can a charity protect itself from shell entities?

A charity may protect itself from such schemes by conducting robust due diligence – knowing who you are dealing with is a very important step.

A professional friend put it this way: 'it is always very expensive to break any relationship: even a bad one'. Before getting into a business relationship, charities should invest in conducting proper background checks, visiting the premises of the suppliers or grantees, paying surprise visits, test-checking the validity of address and contacts given and checking the legitimacy of entities with similar names.

Charities should ask for registration documents for their business partners and question those that would have similar characteristics to a shell entity.

Charities should not confuse reference checking with background checks. The objectives of background checks differ from reference checking. Background checks may take more time and might be a bit costly but can save an entity a lot in future.

Training frontline employees to identify such shell companies would also go a long way to ensure that charities do not engage with them. These employees may help detect any attempt of the shell companies to infiltrate the charities systems.

Being familiar with the cost of goods in the market may also help charities to identify any undue overcharges of commodity prices from a shell company.

Consistent monitoring may also help a charity pick up red flags should they already be dealing with a shell entity.

This case study from Plan International outlines what steps they've taken to counter fraud in their organisation, which is large, financially complex and operating in a number of countries.

Plan International is an international development organisation focusing on the rights of children and young people, particularly girls. Plan International's Headquarters is based in the UK but there are fundraising organisations in 21 countries. Funds raised are allocated to programmes in 51 countries across the developing world in the Americas, Africa and Asia. Total income for 2014–15 was 822m and the organisation employs over 10,000 staff.

In common with many organisations in the sector, Plan International had until relatively recently no dedicated resource or programme to effectively manage the risk and incidence of fraud. In spite of low rates of reported fraud, the governing board became concerned that the true impact of the fraud risk was being neither recognised nor adequately addressed. This concern was heightened following a Fraud Cost and Resilience report undertaken by PKF in October 2011.

Developing a Counter – Fraud Framework

As a response to the identified risk of fraud, Plan International put in place what it refers to as a Counter-Fraud Framework – a series of specific measures which together provide an holistic approach to managing the fraud risk.

First of these was a revamp of the existing anti-fraud, anti-bribery and corruption policy. A key element of the policy was to delineate key responsibilities for specific levels of staff in relation to preventing, reporting and investigating fraud. To back up this policy a dedicated Counter-Fraud Unit (CFU) now provides a resource for fraud prevention programmes and assumes control of all fraud investigations. The CFU itself supports a cadre of staff across the organisation who assist in investigations, providing them with training and mentoring, and ensuring that basic standards are met. The CFU also undertakes analysis of fraud risk to identify where mitigation is required and to learn from the experience of specific fraud incidents to improve control and prevention measures.

An effective reporting regime is key to dealing with fraud and, in addition to an existing internal reporting mechanism, Plan International introduced an outsourced whistleblower telephone and online reporting service. This service operates 24/7 and is available in over 30 languages to reflect the wide range of nationalities in the organisation.

CFU staff run a programme of interactive fraud prevention workshops designed for staff at all levels to ensure higher levels of awareness of the risk and incidence of fraud and corruption and to clearly set out the responsibilities of all staff as noted in the policy.

SECTION 6: RISK MANAGEMENT AND FRAUD PREVENTION

Fraud matters are managed transparently and are reported not only to the Financial Audit Committee of the Board, but also appear in summary on the Plan International website, accessible to the public. CFU staff also meet regularly with counterparts in other INGOs, where they exist, to exchange experience and good practice.

The benefits to Plan International have been demonstrated by a five-fold increase in reported fraud incidents. At first sight this may be seen as a questionable benefit, but this has allowed the organisation to effectively deal with what would previously have been undiscovered or unreported incidents.

This means allegations can be professionally investigated, sanctions can be applied where appropriate, action can be taken to recover any identified losses, risks can be better analysed, and remedial measures can be put in place where necessary to prevent recurrence. Institutional and individual donors can also be given greater reassurance that Plan International has not only identified fraud as a real and existing threat, but is serious about dealing with it in a professional and robust manner.

Diana Isiye
Acting Head of Counter Fraud, Oxfam GB

> **“Charities should not confuse reference checking with background checks. The objectives of background checks differ from reference checking. Background checks may take more time and might be a bit costly but can save an entity a lot in future.”**

07 SHAPING OUR FUTURE

IN THIS SECTION

IDENTIFYING AND MANAGING CHANGE

Chris Sherwood outlines some of the steps Relate has taken to help them to innovate and diversify their income in recent years – in response to a challenge facing many charities: a heavy reliance on public sector funding.

The charity sector has been under significant financial strain for some time now. There's been a continued fall in its public sector income since 2009/10, and this trend is unlikely to change in the near future. Smaller charities have been particularly affected, and Relate has been by no means immune to the problem.

Our current business model relies heavily on public sector contracts with over half of our funds coming via this income stream. A further third of our funding has come from our paid-for counselling services. In the past few years, our public funding model has gone through significant change with a move from grants to outcomes-based contracts. It is clear in the current climate that we need to further diversify our income streams and grow our traded income.

This all comes at a time when the expectations of our clients are also changing. Face-to-face support is still a core part of Relate's work but our online services are experiencing significant growth, enabling us to reach new client groups and ultimately, allowing us to find new ways of generating income. We are essentially innovating our way out of the challenges we are facing.

Our experience is no doubt applicable to other charities and has highlighted three critical factors when embracing innovation as a way to become more financially sustainable.

1. Governance

The collapse in recent years of a number of high-profile charities has highlighted the critical role of Trustees and the important responsibilities that they hold. Innovation by its very nature involves taking risks and the potential to fail, which can test a Board's appetite for risk. However, innovation also offers boards the opportunity to reimagine how they deliver their vision and mission by meeting social needs in new and better ways so that they can stay relevant to the requirements of their beneficiaries.

Improving Relate's approach to governance has been central to our ability to be able to foster innovation in response to the challenges that we face. In 2014, we completed a governance review, which enabled us to move from a Board of 25 members to one of 14. This review also increased the number of independent, co-opted members of the Board from one fifth to a third of Trustees. These changes have brought new skills and experience to our Board, improved the quality of our governance and increased our appetite to take managed risks. They have also improved our ability to foster innovation so that we can continue to be sustainable into the future.

> **“Improving Relate's approach to governance has been central to our ability to be able to foster innovation in response to the challenges that we face.”**

2. Using data to support evidence-based decision making

Like many other charities, Relate is awash with data but has struggled in the past to make use of data to direct innovation. We have expended much time and energy in addressing this issue, so that we now have a good handle on our operating context, the trends that we are seeing and where we think we are headed. The use of this data in our decision-making has enabled us to gain traction and support across the organisation for our need to change. It has also revealed opportunities for innovation by identifying gaps in the market and has provided a better understanding of the needs and aspirations of our clients.

Finally, we have worked with the think tank and consultancy New Philanthropy Capital to develop a new approach to measuring outcomes in our services. Whilst this work is still in its infancy, it offers the potential to provide a much richer picture of the impact that our services deliver.

3. Fostering disciplined innovation

At Relate there is no shortfall of good ideas, but what has been missing is the capacity to test, refine and scale-up these ideas so that we have the best ideas. In response, we have established a small, inter-disciplinary Innovation Lab that operates with a high degree of autonomy and is unencumbered with the typical bureaucracy of an organisation, so that they have greater freedom to innovate. This team is supporting the organisation to test, refine and scale-up good ideas. It is also starting from the position of what our clients want rather than re-packaging what we already do.

Our Innovation Lab is building confidence amongst our employees around innovation and is demonstrating the potential for Relate to excel in this area. The team has been working with a series of external partners to test, develop and soft-launch the first ever online family dispute resolution service in England and Wales, offering an alternative to court-based dispute resolution. This is a much-needed innovation in our country to support the thousands of divorcing and separating couples who struggle to resolve their disputes.

During times of financial constraint being risk averse and overly bureaucratic is simply not an option. Effectively communicating the case for change and developing a culture of innovation is vital to charities' future success.

Chris Sherwood
Chief Executive, Relate

SECTION 7: SHAPING OUR FUTURE

UNDERSTANDING AND CHANGING BUSINESS MODELS

"An important consideration for charities heading down the road of collaborative working is ensuring that any partnership is formalised and documented."

Need to deliver more with less? You're not alone, says David Britton – the key to sustainability in these choppy waters is to regularly review and, if necessary, change your business model.

It's no secret that the last few years have been a testing time for many charities. From increased media scrutiny to changes in fundraising regulation, the potential impact of Brexit and public sector cuts, there have been a myriad of challenges on the agenda for many charity leaders.

And while some of these changes have come somewhat out of left field, the one thing that has remained consistent across all areas of the sector has been the risk of reducing funding. When Ecclesiastical surveyed charity leaders at the end of 2016, 73% cited access to funding as their main challenge for 2017 – a long way ahead of their next biggest concern, Brexit, at 8%!

This context of constant funding challenges makes income sustainability the primary focus for most organisations. But whether a charity's funding is under threat or already actively reducing, its goals will remain the same. Indeed in many cases, the need for their activity may be increasing. So, as the third sector is faced with the dilemma of providing more with less, what solutions can charities consider in order to continue providing such critical services?

One way to tackle this challenge is to review, and potentially change, the organisation's business model. This could be operating in a different way, moving to a completely new model, or simply finding new ways to raise more funds. There are many potentially-appealing options to consider, but charities need to be aware of the potential risks as well as the rewards involved.

As charities look to reduce their costs, an increasing number are considering more collaborative working, or ultimately mergers, with other charities with whom they have a shared goal. Given the changing nature of the relationship between the sector and the state though, some charities are looking to work in partnership with the private sector instead. Not only can this approach reap efficiency savings, it can also be a means to drive innovation.

An important consideration for charities heading down the road of collaborative working is ensuring that any partnership is formalised and documented. It is important to set out clearly which party has responsibility for staff and volunteers. And if a merger is taking place, this becomes vital. Plus of course, there can be incredibly complex issues around staff transfer and TUPE regulations, which will need legal input.

One other approach for charities to consider is to step up their focus on trading and commercial activities; potentially changing status. This might, for example, involve setting up a social enterprise or trading subsidiary as a way of providing training and re-employment to the charities' beneficiaries as well as generating income. Changing status can help achieve this goal, for example by using a CIC to move away from Charity Commission regulation. Going down the 'Incorporation' route can also help Trustees to avoid personal liabilities.

But while trading can generate valuable income, it does also bring varied risks; whether that's being subject to consumer legislation around the sale of goods and food, or protecting staff and volunteers who are using machinery or equipment that could cause them harm. As with every new venture, it is vital to ensure that activities are run by people with appropriate experience and that proportionate risk assessments are carried out.

Changing approaches to fundraising is another area that charities could consider, and one that is very topical in 2017. With the media and regulatory focus firmly on direct mail and face-to-face fundraising, many charities are certain to be taking a good, hard look at their fundraising model. While the initial focus of this will be on complying with the new regulation and ensuring any donor has 'opted in', it is likely that many charities will look to move away from face-to-face or telephone fundraising completely. And whilst we are still not clear about what the future impact of opt in consent will be, there is no doubt that it could hit fundraising revenues.

Even if a charity doesn't operate in this arena, fundraising is a crowded marketplace and many charities will be looking for alternative and increasingly innovative methods. One recent growth area, for example, has been in the organisation of fundraising events, where there is an inevitable 'risk creep' as events become more and more varied and extreme in order to attract participants and donations.

When charities are getting involved in more hazardous fundraising events such as obstacle course races and extreme challenges, it is critical that they engage with competent third parties with experience and their own insurance in place. As with the use of telephone fundraising agencies, it is a charity's responsibility to ensure they use appropriate sub-contractors, bearing in mind both the physical and reputational risks involved.

The other high profile current risk around fundraising is that of data protection. The ICO's interest in charities' approach to data protection has been widely reported on, and since Q2 2015, the amount of data incidents reported in the charity sector has tripled.

This has to be a key area of focus for charities in 2017 and beyond. Indeed, a review of all personal and sensitive data exposure in a charity may be required. It is a particular consideration where charities are using donors' data but many charities will also hold a lot of sensitive data on beneficiaries. Simple IT security steps such as firewalls, data retention policies and board reporting are all ways to begin tackling this challenge.

With these myriad opportunities and challenges, Trustees undoubtedly face a difficult job navigating the strategic (and choppy!) waters of charity business models. Ecclesiastical's recent charity sector research noted that 65% of Trustees felt that their responsibilities had increased in the last five years in areas such as governance, fundraising, health and safety and data protection. It is, therefore, more important than ever to find ways to support this critical role, whether that is through increased diversity of Trustee boards or more training and induction.

With the fast evolving world of charity governance, regulation and politics, charities need to take a positive and balanced approach to risk. That involves regularly reviewing their business model to ensure it is fit for purpose but also having a full understanding and management of the risks involved with any change so that they are in the best possible position to take the opportunities that may present themselves.

David Britton
Charity Director, Ecclesiastical

SECTION 7: SHAPING OUR FUTURE

HR & FINANCE – TWO SIDES OF THE SAME COIN, BUT WHICH CURRENCY?

Peter Reeve from MND Association explains how Finance and HR can be business enablers, working in partnership for the same end goal.

As everybody on the Apprentice with an HR background helpfully says – we don't do numbers. Truth told, for many of us we haven't really needed to, our workforces were static and we worked to fairly inflexible establishment lists – remember them?

Then at some point everything changed, our organisations and our workforces needed to be agile and flexible. For some that can be a pretty big change, anyone who has lost/won a big TUPE contract will know what that means. At the MND Association the Ice Bucket Challenge generated £7m in six weeks so that rather reset everyone's expectations overnight. Suddenly we had a whole range of temporary, agency and fixed-term contract staff and a large but non-recurrent resource. Nice problem to have, but still a problem. This doesn't even take into account things like the fact that everyone now has the right to work flexibly don't they? Is that a part-time person or a part-time role, and is there a difference?

We had already identified that HR and Finance teams were working from different data so had replaced our HR information system with one that directly linked to payroll – a key thing. As we took the perceived shackles of the establishment lists away and put the emphasis on managing within budget however, there got to be less and less correlation between the workforce that the line manager knows they have, HR thinks they have and that Finance knows that they are paying for. This resulted in out-of-date data for the planning and some interesting forecasts and phasing. This is where business partnering came in.

We wanted a process where the line manager, HR and Finance could come together on a regular basis to reconcile their different versions of reality. We have rather foolishly also tried to extend this to the other business support functions where it has proved a bit more of a challenge. Both our FD and I had used the principles of the BP (Business Partner) relationship in larger organisations so part of the challenge was to see which elements could be applied. HR had already made progress having spent 3–4 years meeting regularly with line managers and sitting in on business meetings so it was more about working out how to join up the other support functions.

To use the terminology of Saturday-night talent shows we are still on that 'journey' but there are a few lessons learnt:

1. Use the same data

Make sure that HR and Finance are working from the same data-set.

2. Make sure your hierarchies are the same

There can often be a difference between the way HR and Finance structure the organisation. For example in our organisation Directors in the general ledger are in with their Directorates, but in the HR system they are part of the CEO's team – sort those things out first (we didn't).

3. Agree your priorities and governance

We had immediate conflict between Finance wanting to maintain establishment control and HR wanting managers to work to a budget but not knowing what it was. That is still going on but in the end we agreed that 'new' posts have to be approved corporately and any replacements can be signed off locally.

4. The 'emperor's new clothes'

I think we all know that talking to the business in a structured and regular way is a sensible thing to do. What the BP model does, particularly in a small organisation, is to give it the appearance of science and to give everyone a common language. We did deliver some skills training, we called it internal consultancy skills – or asking the right questions in the right way, at the right time and listening to the answers.

In conclusion if yours is an organisation that doesn't really have to change, turnover is low and business requirements don't change that much, then you will get away with the HR and Finance sitting in the traditional silos.

However, I suspect post-Brexit, post-fundraising regulatory changes not many of us are going to be in that position. So if you are having to deal with business heads who are demanding that the business be more agile and flexible and that has a workforce that can respond to those changes, then it doesn't matter how you do it you are going to need to bring the HR and Finance teams together – good luck!

Peter Reeve
Head of HR, MND Association

"At the MND Association the Ice Bucket Challenge generated £7m in six weeks so that rather reset everyone's expectations overnight."

SECTION 7: SHAPING OUR FUTURE

LEARNING FROM PROBLEMS IN THE CORPORATE WORLD

There have been some high profile failures in the corporate world recently, and there are some lessons charities can take from these. Don Bawtree shares some insights.

Over the last year or so the business world has been brimming with stories of high profile companies that have, for one reason or another, hit the headlines with damaging news stories.

A quick review of the names involved in just the cases we have looked at gives a flavour of the extent of the problems – Tesco, Volkswagen, FIFA, Hewlett Packard, City Link, Phones 4u, Exxon, Thomas Cook, and Amazon are all there. The variety alone points to the wide range of issues and types of organisation that can find themselves in trouble.

Whilst the corporate world mulls over the implications of these events, there are lessons for the charity sector too. Here are some.

Keep in touch with your customers

For any company the customer needs to be a sharp focus. As far as investors were concerned, their primary focus will always be the financial return and sustainability, and so the companies almost certainly kept those objectives in mind. But while they were doing that, the importance of the customer was sometimes overlooked. Here for instance is one unattributed comment from Phones 4u quoted by the Guardian: "let's just say that Phones 4u's interests weren't always aligned with the customers."

Former Tesco Chief Executive, Sir Terry Leahy, commented that apparently all was well there because the customers kept coming back, but in fact there were problems brewing. The rise of cheaper supermarkets, confused pricing over promotions, alongside high profile disputes over suppliers were all eroding trust in a brand that, basically, promised to be cheapest. And eventually that led to customer dissatisfaction, and the inevitable impact on results.

Is there an obvious parallel with charities? For many of the traditional fundraising or service delivery charities then the answer must be yes – but with one crucial difference. A retail customer can 'go off' a retailer one day, and be tempted back the next. Generally that is not so easy for charities, suggesting that customer (or stakeholder), care is even more important to manage.

Governance or leadership

The underlying reasons for the various problems is not always clear, but several indicators point to failures of leadership.

Amongst the biggest stories in recent years is that of FIFA, where it is difficult to disentangle executive leadership from governance. The following quote from the BBC gives a flavour of it all: "In May 2015 the US indicted 14 current and former FIFA officials and associates on charges of 'rampant, systemic, and deep-rooted' corruption following a major inquiry by the Federal Bureau of Investigation (FBI). And in December that year, 16 more officials were charged following the arrest of two FIFA vice-presidents at the same hotel in Zurich." The clear implication is that the extent of the problem was widespread amongst the leadership.

Charities have the rather curious situation of their governance being, essentially, in the hands of a group of well meaning, unpaid part-timers, who may not necessarily have the right skill sets, whilst the day-to-day leadership is vested in paid executive staff. In this situation, there must be extra attention and diligence to ensure that mutual trust and confidence exists, and that the honest information flows and serves its purpose. A huge majority of Charity Commission investigations bear witness to the fact that nearly all problems have at their core some sort of governance failure.

Getting the response right

We always advocate that the best defence is transparency and high quality governance, but sometimes that is not enough. For instance, here is the Guardian commenting on Toshiba: "There is clearly much more work to be done to achieve corporate transparency. Toshiba was a company lauded for its corporate governance structures yet these could not stand up to a culture of secrecy, a failure to properly monitor and a relentless quest for profits."

It is therefore interesting to reflect on how organisations have reacted to criticism when the governance does break down or problems hit. There is often a tough decision to make as to whether to stick to the legalities or go a bit further, maybe risking some sort of financial claim, but on the other hand maybe enhancing the company's reputation. Thomas Cook had to strike this balance after the sad deaths of holidaymakers in a Corfu hotel due to carbon monoxide poisoning. The company was cleared of any responsibility at a criminal trial in Greece in 2010, and last year the inquest accepted that it had been misled by the hotel in question. But the media storm that subsequently erupted focussed not on the events of 10 years ago, but how the company responded to the events. Central to this was whether or not the company said sorry.

We have seen several cases recently of charities being in the news, and in truth we have seen a variety of responses. Some have been reticent, some challenging, some very open. Each case will merit a different and thoughtful approach – but we have pointed out before that many organisations do not include reputational damage responses as part of their risk management strategies. This is a failing shared with many in the corporate world too. However the stories above suggest that this might merit more attention!

Don Bawtree
Partner, BDO LLP

"Charities have the rather curious situation of their governance being essentially in the hands of a group of well meaning, unpaid part-timers."

THE ROLE OF LEADERSHIP IN ORGANISATIONAL CHANGE

The success or otherwise of organisational change programmes is largely dependent on the people involved – Buzzacott's Kimberly Bradshaw discusses how to get people on board and manage change well.

Success rates for organisational change are low. Largely, this isn't due to the processes used, but to the people involved.

Leaders need to act as the central character in organisational change; they must create followers and consider the impact that change has on them. In the modern organisational environment of regular (if not constant) change, employees do have a voice, will disagree and will not necessarily work amicably through the process. When this occurs, it falls to leaders to guide them through.

Staff will look to leaders for vision, values, credibility and follower support when deciding how hard they will work to support a change initiative. Achieving successful change requires the mitigation of negative reactions from your employees, which reduce commitment and loyalty to the organisation.

The impact leaders have on organisational change is driven by the roles people fulfil in delivering organisational objectives. Even if the nature or the number of roles changes, the roles within an organisation remain central to its delivery. Team members often feel that if an organisation is experiencing frequent change, that this will become the norm. Team members can begin to view change causing as inevitable and unpredictable. This has a substantial impact on the roles people play at work and on the individuals managing them.

Managing change

In this context, it is no wonder that leaders struggle to understand how best to approach change. Given that minor changes within a work environment may be experienced as major crises by those impacted, how can leaders best take their followers along with them to ensure successful organisational change through the behaviours they employ?

The ability of an individual to embrace change is in part due to the way it is managed. Change needs to be championed by the leaders who are in a position of organisational power. It is their responsibility to have the appropriate skills and behaviours and to ensure their followers have the skills and understanding appropriate to ensure successful and lasting change.

It is leadership behaviours and skills, as opposed to leadership style, that influence followers and their reaction to organisational change, impacting whether change is successful.

A variety of behaviours and skills are required by leaders to ensure positive impacts on followers and therefore sustainable, successful change. These include:

- Employee involvement;
- Effective and timely communications;
- Accurate evaluation;
- Management support;
- Use of a flexible leadership style and consultation; as well as
- Developing strong organisational values and driving management developments.

Few, if any, leaders have all of the requirements needed to achieve positive outcomes – meaning the development of leadership skills is necessary to ensure successful change.

Consultation on the implementation of change strategies ensures commitment and relevance for employees, and change success can be achieved by leaders developing a strongly-held set of organisational values.

Values provide an organisation with a purpose which motivates employees. Indeed organisational values are often defined as the characteristics of the employees of the whole organisation and encompass both words and actions. Research shows that leaders must live the organisation's values rather than enforce them, otherwise employees' organisational commitment can drop.

In addition, different situations require different leadership styles, with change most successful when leaders flex between directive-coercive and consultative approaches. Leaders should instil confidence, plan for the future, help managers become facilitators and develop a common purpose.

Successful organisational change is possible. Procedural fairness, management support and well-planned and implemented change initiatives can all result in an effective process.

> **"Staff will look to leaders for vision, values, credibility and follower support when deciding how hard they will work to support a change initiative."**

Kimberly Bradshaw
Managing Director,
Buzzacott HR Consultancy

SECTION 7: SHAPING OUR FUTURE

THE IMPACT OF 'IMPACT'

With so many charities competing for funding, demonstrating impact will help your charity differentiate itself. But where to start? Grant Thornton's Phil Keown looks at why, and how you can use impact reporting to achieve cut-through.

In a world in which there are thousands of charities, many of them small and many set up to achieve very similar aims, it is difficult for stakeholders to choose between them. The increasing economic pressure on charitable giving means that all charities are competing for the same scarce funding, and those which provide services – often under contract with local authorities or other commissioning groups – are of course competing directly. So how do they differentiate themselves?

Many rely on a well-established brand, often supported by marketing and wider communications. Others may highlight their efficiency or cost-effectiveness, either in the delivery of services, or in terms of the proportion of each donation that goes to 'good causes'. In order to compete effectively, transparency, openness and honesty are key factors which build stakeholder trust, and, which used properly, can significantly enhance a charity's relationship with existing and potential stakeholders. Simply put, if you trust a charity to use your money wisely, to be really effective in what it does and to really make a difference in its field, then you are more likely to donate.

Impact reporting is increasingly seen as a core part of this mix. Some charities issue separate reports on their impact, others produce 'transparency' or similar reports, others rely on social media and website content to tell their story. Some rely on their Annual Report and Accounts, in which the front sections set out the charity's achievements (against their aims), and the back sections set out the numbers. The report remains quite limited in what it can do, but the financial regulator is clearly keen for charities to say more about what they do.

"A charity's accounts focus on its financial position and financial performance. In isolation this information does not give the user a rounded overview of what has been achieved from the charity's activities and the resources used in their delivery. The report and accounts taken together should provide a picture of what the charity has done (its outputs) or achieved (its outcomes), or what difference it has made (its impact)." SORP (FRS 102)

The SORP goes on to say:

"Charities are encouraged to develop and use impact reporting (impact, arguably, being the ultimate expression of the performance of a charity), although it is acknowledged that there may be major measurement problems associated with this in many situations."

There is similar pressure from the Charity Commission, and the draft Charities Governance Code specifically asks Trustees to consider whether 'their' charity is in fact the best organisation to be delivering what they deliver, or whether passing on those services or merging with another charity would be the best thing to do.

All of these roads lead to an increasing need for charities to report clearly on their impact, the difference they make; but the landscape is fractured, partly because the audience for such reporting is so varied. For some, it may be enough to simply report on 'what have we spent your money on' (outputs). For others, it may be more about the outcomes, and reporting at this level is likely to bring in concepts of efficiency, effectiveness, and performance. It is for this reason that many local authority and equivalent contracts for services include an element of paying by results. And more and more charities are trying to report on impacts, which would be expected to have a wider audience, and to speak in a much broader way about the aims of the charity and the extent to which they are achieving them.

But impact reporting is quite naturally a marketing channel too. It is the charity saying things about themselves, which are designed to show them in a good light, be appealing (in all senses of the word) to the reader, and to reinforce the brand message. As a result, and especially because some failed charities have been found to be making unsubstantiated or inflated claims about what they have done, or what impact it has had, there is an increasing clamour from sector commentators for standards, and for some sort of independent assurance on impact reporting.

The difficulty here is not a lack of standards; quite the contrary, there are too many. Just a quick look identifies 20, 30, 40 different frameworks for measuring impact. All of them are valid, all of them founded on rigorous academic and social research, and all of them with their champions and their detractors. They are all designed to do slightly different things. And we see the effect of this on service contracts, for example. One children's charity I know who has service contracts with councils in many different parts of the country, has to report differently to each of them on services provided, quality, reach, cost-effectiveness and other elements. Some of them insist on using certain measurement or standards frameworks; others insist on using different frameworks. None of them are wrong – they just want to achieve different things. So it is not realistic to ask for common standards.

Into this world rides the auditor (or more widely, assurance provider), wearing a white hat and with a mission to clean up the town. But what sort of assurance can be given, what sort of assurance would be helpful, and what sort of assurance would add genuine value and increase the trust the reader should have in an impact report? I would assert that there are several aspects or principles underlying good impact reporting which all the different frameworks have in common, and over which a level of independent assurance would be valuable, certainly to Trustees as they take responsibility for impact reports, but also for the wider audience.

Firstly, there is the underlying framework the charity is using. Is it suitable for what the charity does? Does it support their "Theory of Change"? Is it supported by suitable measures and metrics? Is it recognised in the sector they work in, and is the charity being open and transparent in their reporting about this framework, about their reasoning around why what they have chosen to do can be shown to connect to, and drive the impacts they seek?

Secondly, there are the measures themselves and the data being gathered. Do they come from a reliable source? How does the charity know this? Have they validated it somehow? Are there appropriate checks and balances to make sure the data is not manipulated, adds up correctly, avoiding double counting?

> **"If you trust a charity to use your money wisely, to be really effective in what it does and to really make a difference in its field, then you are more likely to donate."**

SECTION 7: SHAPING OUR FUTURE

“But impact reporting is quite naturally a marketing channel too. It is the charity saying things about themselves, which are designed to show them in a good light, be appealing (in all senses of the word) to the reader, and to reinforce the brand message.”

Thirdly is the stories. The most common form of impact reporting includes a combination of stories and statistics, and good practice would suggest that both are needed, and that they must support each other. So how does the charity ensure the stories are true, verifiable and real? How do they gather them together, check them, and make sure they are current? Do the stories and the statistics fit together in a coherent way?

Last is governance. What management structures are in place to question, challenge and check what goes into the report? Who decides on this and how? What checks are in place to make sure that facts and figures in the impact report are consistent with, for example, the report and accounts, or the charity's website? And most importantly, what visibility do Trustees have, and how do they discharge their responsibilities over impact reporting?

Finally, there are the stakeholders. Has the charity clearly identified who they are? To what extent does the charity engage with them on the reporting and obtain feedback from them? And does the charity take that feedback on board and learn from it for the future?

Significant decisions are made on the basis of a charity's reputation; it is a hard-won thing, carefully nurtured and carefully maintained and enhanced. Independent assurance over impact reporting has a strong role to play to increase trust in a charity, to allow all stakeholders to have greater confidence in what the charity says about itself.

Good impact reporting itself has an impact.

Phil Keown
Internal Audit lead for Charities, Grant Thornton UK LLP

08

GOVERNANCE AND REGULATION

IN THIS SECTION

GOVERNING A CHARITY'S FINANCES – WHAT EVERY TRUSTEE NEEDS TO KNOW

No charity can operate without the financial and other resources to meet its charitable aims. Here, Jane Hobson from the Charity Commission explores the crucial role that charity Trustees and their senior management have in managing charity finances.

All Trustees need to make the best possible use of the resources the charity has, keep them safe as well as exploring new funding and resource opportunities. This is a challenge for Trustees especially during difficult financial times and when, for some charities, there can be an increased need for the help they provide.

Last year, the Charity Commission published a report of a review in which we undertook to look at how charities were responding to financial difficulties. We looked at the accounts of large charities flagged up by their auditors as facing financial difficulties in 2015–2016.

We found that the main reasons for financial difficulties were:

- a challenging financial environment;
- reductions in income for charities that charged for services, were dependent on public sector grants or contracts or needed to continue raising large amounts of voluntary income;
- set up or restructuring costs;
- pension scheme deficits;
- unplanned overspends or contingent liabilities, such as claims against the charity.

These are factors which may affect other charities too and the lessons learnt from this review will be useful to charities of all sizes.

Our review highlighted the challenges that the difficult financial environment presents for charities and the crucial role that charity Trustees and their senior management have in managing charity finances.

Some key messages are that Trustees should:

- act in the charity's best interests, manage the charity's resources effectively, and ensure the charity is accountable;
- be prepared to address financial difficulties when and if they appear on the horizon – charities that are able to identify pressures and risks early are best placed to address them;
- take seriously any concerns expressed by their charity's auditor or independent examiner and take appropriate action in response;
- look at our guidance on financial matters.

There are many sources of information on the basics of good financial governance and the Commission has published a wide range which can be accessed through www.gov.uk. However it is worth setting out the basic principles here.

Good financial (and any other) governance depends on the Trustees understanding their role and duties – our guidance *The Essential Trustee* explains these in detail but these are the key points.

> **“Being open and transparent about financial governance policies can increase trust and confidence in the charity sector generally among a wider audience.”**

Trustees:

- are the people who serve on the governing body of a charity;
- have the ultimate responsibility for directing and managing the affairs of their charity;
- understand that the charity's sole purpose is to serve its beneficiaries;
- must ensure that their charity is financially viable and provides the best possible service to those who depend on it;
- are open and transparent about their charity's aims and the way it achieves them.

The next step is to put in place the governance structures and procedures that will allow the Trustees to properly supervise their charity's finances. They will need accurate and regular financial information and feedback to support and inform the decisions they need to take – this might come from the Trustees themselves, staff or professional advisors. For example, they will need updates about their charity's performance against budget, alerts to new or potential risks or problems or possible changes in funding which might have an impact on the charity's activities or future plans.

It's important to remember that while Trustees are responsible for overall control of the charity's finances and strategic planning for their use, they can delegate tasks and some decisions to others with specialist knowledge that they might not have. If they do, they need to set out clearly the boundaries that those individuals or committees will work within, as well as what feedback the Trustees will need and how regularly.

Once the governance framework is in place, the specific ways in which a charity's funds will be managed and used are matters of policy for the Trustees to decide and will depend on the size and activities of their charity. A charity's beneficiaries, funders and supporters will want to know what the Trustees' policies are so they can be confident that the charity's finances are being properly and actively managed and that the charity's ethos, visions and values are ones that they are comfortable with. In addition, being open and transparent about financial governance policies can increase trust and confidence in the charity sector generally among a wider audience.

The point of having and publishing these policies is to show that the Trustees have considered and planned both for the future sustainability of the charity, meaning ensuring the welfare of its beneficiaries for the foreseeable future and if it has to close. It's important for Trustees to agree at an early stage how to recognise when the charity has reached the point that it can no longer continue and what actions they then need to take.

There are two very basic policies relevant to good financial governance that need to be in place:

- a robust assessment of the risks that a charity might face and how they will be managed or mitigated. This should include the security or otherwise of its funding streams, possible increases or decreases in its provision of services and any other factors that affect the services that it offers;
- what, if any, reserves need to be set aside out of the funds a charity can freely spend and when and for what they are to be used. This is especially important for charities that have vulnerable beneficiaries in order to ensure their welfare as far as possible if the charity has to wind up.

In addition a charity wanting to invest its funds must publish its investment policy – this will explain what its investment portfolio needs to achieve to meet its short, medium and longer term strategic plans. The Charity Commission's guidance *Charities and Investment Matters: A guide for trustees* explains what trustees need to know when investing charity funds.

Also, the investment policy will show whether the Trustees have chosen to invest ethically and why. Have they taken into account the views of beneficiaries and supporters when taking this decision? What type of investments will they include or exclude from the investment portfolio and will they take other types of shareholder action to ensure that the charity's aims and values are protected?

Because we want to ensure that we are offering useful and up to date guidance on these issues, we will be reviewing our range of financial guidance in the next few months. We are also looking at ways in which our guidance can be accessed in other ways – recent feedback from charities has indicated that many Trustees would find it useful to see information presented using other media to suit their needs and learning styles.

Jane Hobson
Head of Policy, Charity Commission

HOW CAN CHARITIES USE SERIOUS INCIDENT REPORTS EFFECTIVELY?

Changes are in the pipeline for the Charity Commission's regulations on serious incident reporting, but rather than bringing clarity, do they risk even greater confusion? CFG's Andrew O'Brien reports.

At the end of 2016, the Charity Commission launched a new consultation on Serious Incident Reports (SIRs), which are subject to change in 2017. The consultation aims to improve the guidance for SIRs which has often been plagued with confusion for both charity Trustees and staff.

SIRs remain a difficulty for many executive and Trustee Boards because of a simple question: what constitutes a serious incident?

For many, a serious incident is one of those things where you know it when you see it. Every charity is different. The theft of a £1,000 from a charity's fundraising event may be an occupational hazard for one organisation, but a major cashflow crisis for another. Some charities may experience a fraud every week due to their size and complexity. For others, just one fraud may be the sign of an organisation which is lacking effective financial management.

One way of helping charities to get around this problem is to consider what SIRs are and what they should be used for.

SIRs are supposed to be for the Charity Commission to monitor the governance of charities and ensure that legal responsibilities are being met. This happens on both an organisational level and a sector-wide level. On an organisational level, SIRs may alert the Commission to the need for further investigation or guidance that needs to be given to an individual charity. On a sector-wide level, a significant number of SIRs about a particular issue, say fraud, may indicate that there is a need for more guidance and support for all charities.

Ultimately, SIRs are a tool for the Charity Commission to carry out its regulatory functions. After all, the Commission has no resources to chase after criminals who may have stolen or committed a fraud on a charity, for example, so simple disclosure is meaningless in itself. This is why charities are also required to report to the police or other agencies when they are the victim of a crime.

The Charity Commission's newly-proposed guidance however is at risk of confusing charities. Not only does the Commission want to hear about incidents which may identify a potential governance or dereliction of legal responsibilities, but it also wants to know if charities have lost access to bank accounts, seen significant cuts in grant funding or are subject to media attention. In some cases, losing a bank account may be the sign of an abdication of legal responsibilities but this is not necessarily the case due to the changing risk appetite of UK banks.

Moving away from a flexible understanding of the nature of a serious incident, towards a shopping list of issues (some of which have been subject to significant negative media coverage for charities over the past 12 months) risks confusing charities about how and when to report. It is important that charities are not just made to over-report in order to stay ahead on the right side of the Commission, and this will obscure the Commission's vision to the big issues facing the sector.

It is important both for the Commission and the charity sector as a whole to understand the role of serious incident reporting. CFG has asked the Commission to revise its guidance, removing unnecessary lists of activities and focusing on the core purpose of the SIRs. If an incident has arisen which raises concerns about the governance of the charity or the ability of the Trustees to meet their legal responsibilities, then it should be reported. In the case of a low-level fraud occurring regularly in the charity, it is clear that this could threaten the ability of the Trustees to effectively manage their charity's finances. However losing a major contract, in the midst of a competitive environment and cuts in funding (unless linked to a problem with the charity itself), is not likely to be the sign of a governance problem. Interesting it may be, but it is not the place of the Commission to merely seek out interesting information.

When the new Charity Commission guidance is published, charities should use the opportunity to reconsider their approach to serious incident reporting – in particular considering whether the incident is an indication of weak governance. Boards should ask themselves the following questions:

- Does my charity have a clear process for identifying and escalating serious incidents?
- How will decisions be made on whether an incident is serious and what criteria will be used?
- How does this incident reflect on the governance of the charity? Are additional steps necessary to rectify governance failings in the charity?
- Who is responsible for ensuring that reports are made to appropriate bodies including the Charity Commission, police etc.?
- Is there a communications plan for external stakeholders about incidents and when reports are made?

With an increasing number of charities asking finance teams to ensure overall compliance with the law and regulation, finance professionals in particular will need to take note. Moreover, there are lessons that other functions can learn from the approach of finance teams in ensuring effective reporting processes are in place.

Andrew O'Brien
Head of Policy and Engagement,
Charity Finance Group

> **"Not only does the Commission want to hear about incidents which may identify a potential governance or dereliction of legal responsibilities, but it also wants to know if charities have lost access to bank accounts, seen significant cuts in grant funding or are subject to media attention."**

CHARITY GOVERNANCE – THE DIFFERENT ROLES OF TRUSTEES AND EXECUTIVE; ASSURING AND ENSURING

Boards and executives have different roles which can be defined by their responsibilities and accountabilities. Here, John Tranter, Director and Charity Advisor and CFG Trustee himself explores these roles and the importance of Trustees to provide assurance.

The Charity Commission emphasises more and more strongly the role of Trustees in ensuring charities comply with regulatory and legal requirements. In its guidance on reporting serious incidents, for example it makes it clear that they hold Trustees, not staff, directly responsible:

'Responsibility for reporting serious incidents to the Commission rests with the charity's Trustees even if they delegate work to others.'

Trustees face a dilemma: having delegated much of the running of a charity to the executive, what is their role and what detail do they need to be aware of?

Often the difference is articulated as strategic v operational, but Trustees are just as responsible for compliance. A lack of clarity can lead to tensions between the Board and the executive. The solution to this lies in having clearly-defined responsibilities and accountabilities.

Defining Governance

Charities exist to achieve their charitable objectives and put very simply, governance is the sum of the activities that ensure a charity achieves its objectives.

The key is 'ensuring' and to do that, Trustees need to obtain assurance and be able to provide assurance to stakeholders and regulators that their charity is achieving its objectives and fulfilling its regulatory requirements. The difference between 'ensure' and 'assure' is critical in defining different roles in governance and the relationship between the Board and executive.

Assuring is about providing confidence and confirmation whereas ensuring is making sure something is done.

Who is responsible for what?

To achieve its objective a charity undertakes a number of tasks each of which has its own objectives. These tasks include:

- Defining a strategic plan and objective;
- Recruiting and retaining the right staff;
- Delivering outcomes;
- Setting budgets;
- Managing risk;
- Communicating with stakeholders;
- Demonstrating effectiveness;
- Legal and regulatory compliance.

Budgets serve as an example to explore responsibilities and accountabilities:

- Once a budget has been set, it is the CEO's responsibility to: manage the budget and be accountable to the Trustees for ensuring the budget is met, and ensuring Trustees have relevant and robust information against which they can appraise performance;
- The Trustees are responsible for: obtaining assurances that the budget is being met; providing assurances to stakeholders; obtaining assurances that information provided by the CEO is robust (through enquiry and challenge) and scrutinising the internal audit to verify processes and systems.

Depth of governance

In a charity with more than one layer of staff, governance cascades through the organisation. At each level, roles, responsibilities and accountabilities need to be clear. Using the example of the budget:

- It is the responsibility of operational managers to deliver and be accountable to their director for the departmental budget;

- In addition to its own budget, Finance is responsible for providing the systems and processes for other teams to manage their budgets, though not responsible for delivering the budgets of other teams.

(Sadly this article is too brief to explore the wider roles of the finance team in providing assurance though forecasts and other metrics).

This importance of clarity can be extended to other areas of activity – Trustees need to ensure that staff are clear on their accountabilities and responsibilities in delivering the objectives of the charity.

Managing priorities and trade-offs

Delivering a charity's objectives requires a constant cycle of managing priorities, trade-offs and judgements. For example, can an activity exceed the budget if a key member of staff has left but the objectives can still be met if higher-paid interim resource is brought in? Managing these daily trade-offs often falls to operational managers, who are juggling competing risks and opportunities.

So the definition of responsibilities and accountabilities needs to be underpinned by a clear path of authority. This is often encapsulated at Trustee level in the delegated and reserved powers policy. Managers also need clarity on what they are responsible for and the limits of their decision-making.

> "Assuring is about providing confidence and confirmation whereas ensuring is making sure something is done."

A strong framework with these in place increases empowerment. It builds confidence, avoids decision-making being delegated upward and also reduces the risk of developing a political culture.

Summary checklist:

1. Has your charity defined who is responsible for delivering the various activities of the charity and obtaining and providing assurance?
2. Are there clear authorities and operating limits, not just for financial matters?
3. Ultimately, is your Board confident that it can provide any necessary assurance to the Charity Commission?

John Tranter
Trustee, Charity Finance Group

THE CRITICAL ROLE OF CHAIRS IN FINANCIAL GOVERNANCE

Finance is too important to be left entirely to specialists, says John Williams from the Association of Chairs. Chairs need to build relationships with the finance team and help them curate financial information so it is accessible for everyone on the Board.

Financial accountability – demonstrating that charity funds are well used – has emerged as a critical element of trust and confidence. Donors and the public want to see their money spent wisely and effectively.

This is rightly a Chair's biggest priority – a sustainable financial model is key to success. A failed charity delivers no public benefit, and a core task for Chairs is to ensure that this is recognised as every Trustee's responsibility. Finance is too important to be left (entirely) to finance specialists. It is partly about sound oversight and risk management but much more than that. Financial planning and strategic planning should go hand in hand. Those who raise the funds and those who spend them in delivering the mission are as much a part of the financial oversight as the Treasurer and their finance team.

But sometimes it seems the charity's mission and its financial imperatives are disconnected. The Chair's role is to work with the Treasurer and finance team to join the dots.

This does not always come naturally. There is an understandable tendency to defer to the experts round the Board and this, in my experience, is most true in financial matters from management accounts to overseeing investments. The Chair has a particular role to ensure that every Trustee is financially confident, is able to read and understand the papers and make constructive comments. If necessary, they should be offered some form of training – your auditors might advise.

As part of this, the Chair must ensure that the management accounts and all other management information presented at Board meetings are clear and comprehensible, and enable Trustees to ask intelligent questions and spot trends and potential problems. The narrative is as important as the figures themselves. Too often I have found quantity of data is a substitute for quality and far too much is loaded onto one spreadsheet (usually in very small type). Finance specialists must know lay Trustees find all this much less easy to digest.

Another issue for the Chair to manage is the relationship between the Trustee Board and any finance, audit or investment sub-committee. These panels can do much of the heavy lifting of detailed scrutiny but ideally should always report back to the Board, and the Chair should ensure that there is proper main Board discussion of financial issues. Does every Trustee see the minutes of every sub-committee? They should.

Outside Board meetings, the Chair needs to nurture and support a successful working relationship between the Treasurer and Finance Director. This is an under-discussed but critical part of charity leadership and governance. A successful working relationship can be a powerful tandem, but it needs the sensitivity and cooperative spirit that make the best Chair-CEO relations work.

Chairs should also champion and value the role of and relationship with their external auditors and accountants. Do we make enough of their insights and expertise between audits and review meetings? As well as a source of professional guidance, they can and should be the most useful critical friends – allow them to be. They have a unique perspective that can help you spot issues before they are serious problems.

> **“Those who raise the funds and those who spend them in delivering the mission are as much a part of the financial oversight as the Treasurer and their finance team”**

I must return finally to trust and confidence. The annual report and accounts should be an opportunity – not merely compliance and a chore: stakeholders and the public have an appetite for greater transparency and impact reporting. They offer a key platform to tell the charity’s story, highlight achievements and demonstrate effectiveness.

This reads like a message to Chairs to ensure they fully engage with financial governance and see their finance team as huge assets. But it is also a message to finance directors and Treasurers to support the role of the Chair to take the lead to improve financial governance, empower all Trustees, manage risk, seize opportunities and protect the sustainability of their charities. It’s everyone’s responsibility.

About the Association of Chairs

The AoC was set up three years ago to provide support for Chairs and Vice Chairs of charities and other non-profit organisations to help them provide effective leadership and to raise the bar on good governance. There is access to free guidance on our website and if you are a Chair or Vice Chair do look at what membership can offer you: https://www.associationofchairs.org.uk/ membership/why-join/

John Williams
Vice Chair, Association of Chairs

KEEP YOUR REPUTATION INTACT – HOW TO COMMUNICATE FINANCIAL INFORMATION

Charities need to communicate critical financial information to engage and satisfy their stakeholders. Vicky Browning shares top tips from the sector on how to get this right.

With third sector finances under increasing scrutiny, it’s more important than ever that charities abide by regulatory and legal frameworks when reporting their financial data. Otherwise you leave yourself at risk of reputational damage. You could end up facing questions from the Charity Commission and losing the trust of your stakeholders. But your annual report is also an opportunity to bring your year’s achievements to life, using your numbers to tell your charity’s story.

Negative media coverage – including mismanagement of finances and controversy over chief executive salaries – has fuelled misconceptions among the public. Charities can address this by improving the accessibility of financial data to ensure people have access to the facts. Your Communications colleagues play a vital role in helping you to disseminate this data to the public, and engage your different audiences.

Understand changes to accounting and reporting

The landscape for charity financial reporting has recently changed. The Charities SORP requires charities to report on risks they are facing and to explain how they are mitigating them. It also encourages organisations to report on their impact, but this is at your discretion – it’s not a legal requirement. However, talking about your impact will add weight to your reporting and engage your stakeholders.

Demonstrate your impact

Donors want to hear about the good work your charity is doing and how their fundraising and donations are impacting the services you’re delivering. Nick Brooks, a partner at chartered accountants, Kingston Smith, says sharing impact should be best practice in the sector: “It’s not easy to report on your impact as you need to set up benchmarking a year ahead of time. It requires a different way of thinking. But annual accounts that focus on output, outcome and impact are a lot stronger.”

The Royal National Lifeboat Institution (RNLI) had its annual report shortlisted in the Third Sector Excellence Awards 2016. It’s a great example of a report that tells the impact of its work in a highly readable way while meeting the statutory and legal requirements of the Charity Commission and SORP. The communications team collected positive stories throughout the year to use in the annual report to highlight the charity’s impact.

Be accessible

Work with your Communications colleagues to improve the accessibility of your financial information so that those who are not familiar with technical data are able to understand what’s being presented to them. Brooks adds: “The narrative of a Trustees’ report is often unattainable to the average reader. The more charities can do to appeal to the wider public, the better.”

Graphs and infographics can help you to share key data in a visually engaging way. Mel Hide, head of corporate affairs at RNLI, says: “Infographics are a real bonus in accounting and reporting.”

Another option is to have a separate document for members of the public, such as an impact report.

> **“If you expect any media enquiries once financial data has been released, your communications colleagues can help to prepare and brief senior managers”**

Make use of all your communications channels

Once you’ve completed your annual report and accounts, work with your Communications colleagues to share your financial information across your other channels, such as your website and your social media accounts. Not everyone will read the full report and accounts, so this will enable you to share key data with a wider audience.

Jenny Roberton, Sightsavers’ digital manager, strategic communications and marketing, says: “While conforming to the new SORP, Sightsavers works hard to present key numbers in an accessible and visual way. We aim to communicate our key data across all our main channels: web, social and print.”

Be transparent

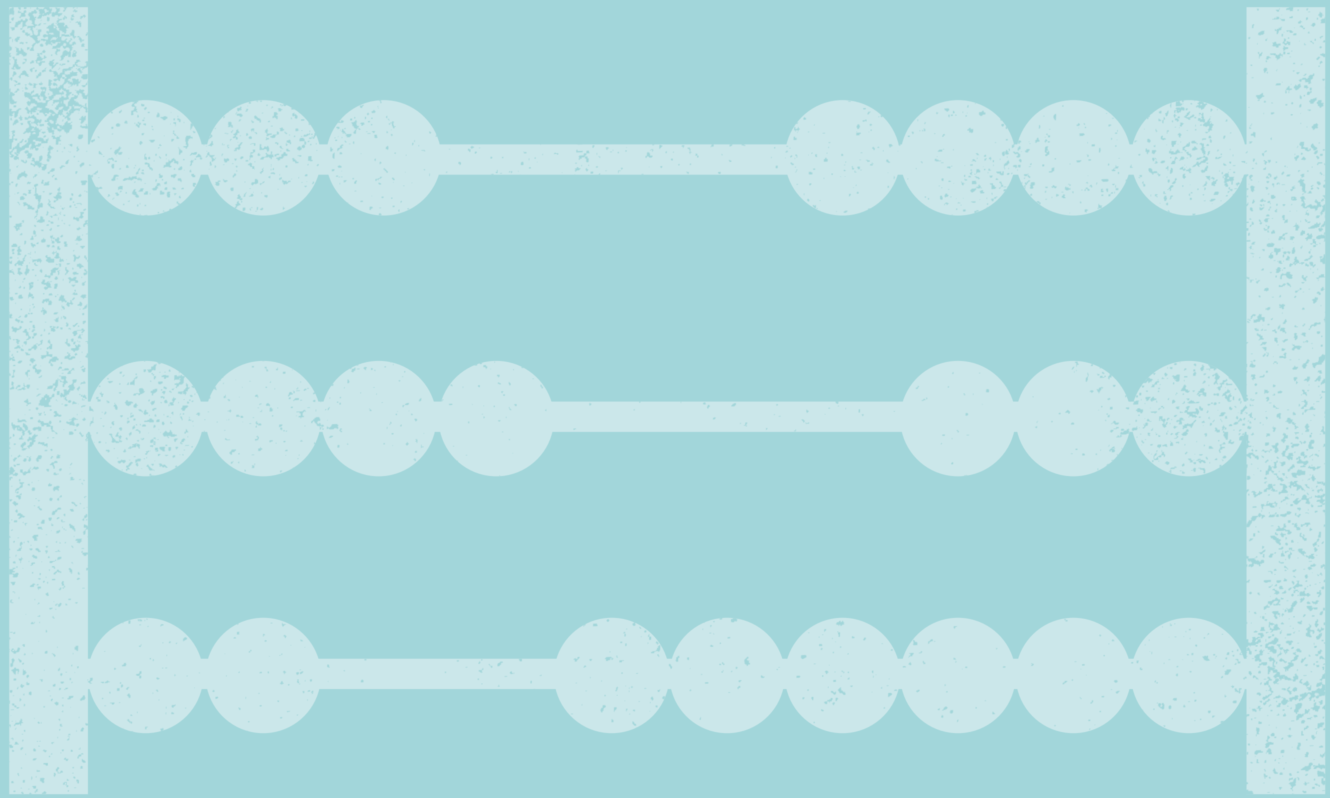
Champollion, an agency advising charities on reputational management, says it’s important to be transparent with your financial data and provide clarity. Helen Wharton, associate director, explains: “Stakeholders should be given an accurate and clear picture — avoid giving the impression that any important information is being withheld.” If you expect any media enquiries once financial data has been released, your Communications colleagues can help to prepare and brief senior managers.

Be open and honest

But what do you do if the news you’re reporting is not so positive? For example, your income may have dropped and you may be wondering how to report this to stakeholders. Steve Howell, CEO of communications consultancy Freshwater UK, says it’s important to let your stakeholders know in a timely manner and provide the context, rather than letting people find out through other means. He advises charities to be frank about less than good news: “In nine out of 10 cases, there are perfectly good explanations for a drop in income, such as austerity.”

Vicky Browning
Director, CharityComms at time of writing. Now CEO, ACEVO

09 SMALL CHARITIES



IN THIS SECTION

‘You know more than you think’ and other messages from the Small Charities Programme
Rachel Cooper, CFG’s Small Charities Programme

Key considerations for small charities
Andy Nash, Andy Nash Accounting & Consultancy

Ten-point checklist for ensuring that your charity is fit for future
Harriet Stranks, Lloyds Bank Foundation for England and Wales

Top tips for small charities: when to stop and where to start
Becca Bunce, Small Charities Coalition

'YOU KNOW MORE THAN YOU THINK' AND OTHER MESSAGES FROM THE SMALL CHARITIES PROGRAMME

Last September, Charity Finance Group, supported by funding from Esmée Fairbairn, launched its Small Charities Programme with a view to improving the financial capability of small charities – those with an income below £1m – across the UK.

Between January and August 2017 the programme will have provided 1,000 training places for people working for small charities on a range of charity finance topics from managing budgets to how to ensure you're not missing out on Gift Aid. In addition, CFG's Small Charities Programme website (www.smallcharityfinance.org.uk) signposts users to a range of helpful tools and resources to help charities with their day to day finances and financial planning.

Here, our trainer Rachel Cooper reflects on the first three months of delivering the training programme and on the common themes that she has identified.

When I heard about CFG's Small Charities Programme last year, I was really keen to get involved and support it. In almost 30 years working in the charity sector, I have observed that, whilst strong financial management is acknowledged to be central to the good health and resilience of an organisation, in reality finance is an area often left on the sidelines. In my experience this is because people suffer from a lack of confidence.

At best this may just mean the odd missed opportunity. At worst, good organisations falter and fail where, with a little bit more financial knowledge, this could have been avoided.

What I hope the Small Charities Programme will achieve through training and the provision of resources is that the people we reach improve their skills and financial knowledge and, more importantly, increase their ability and capacity to take control. My aim is for people to feel that they are able to make better decisions with finance effectively integrated into the process.

In many cases, trainees have travelled a considerable distance to attend the programme. This indicates to me that there is a great deal of demand for the training. It has become increasingly clear that, while there are pockets of brilliant support from local community accountants, there are also 'finance infrastructure deserts' across great swathes of the country, and, it seems, little reasonably-priced training directed at small charities. This means that small charities are unable to access the support they need.

There are three key themes that regularly crop up in the training.

> "By asking [your trustees] questions, you will be giving them a structure through which they can examine the figures, and an opportunity to add value."

Trustee involvement

A lot of people ask how they can get their Trustees engaged in finance and take more responsibility. It's a familiar scenario:– the Treasurer asks a few questions while other Board members are waiting to move on. This is in part because the Trustees themselves do not have confidence in their own ability to get to grip with the finances.

TOP TIP: If you are presenting or sending out a set of numbers to the trustees, set them some questions to answer. This can include asking them whether the assumptions you have made are reasonable – for example, will there be greater or fewer numbers of people needing support? Or are your estimations on the numbers of attendees at an event correct?

Trustees are Trustees because they care about a cause and want to add value. Getting them interested in financial data when they typically rely on the Treasurer (and maybe one other Trustee) to have done the thinking can be difficult. By asking them questions, you will be giving them a structure through which they can examine the figures, and an opportunity to add value.

Full cost recovery

Project budgeting and the vexed question of how to allocate core costs keeps coming up. In particular, people want to know how to do it so that funders will be happy to fund a fair proportion of overheads.

TOP TIP: Spread the costs in a way that you see as fair and appropriate, based for example on headcount, staff time or floor space occupied for each project. It is true that the practicalities of this can require sophisticated accounting, especially for organisations that have no specialist finance staff, but there are some good resources that will guide you through. Some of these resources also have spreadsheet templates that you can work through:

- CAPlus http://www.caplus.org.uk/tools-planning-and-budgeting
- NPC http://www.thinknpc.org/publications/full-cost-recovery-2/
- Big Lottery – although this is directed at grant applicants, it is a good starting point for people looking for principles of project budgeting. https://www.biglotteryfund.org.uk/funding/funding-guidance/applying-for-funding/full-cost-recovery

SECTION 9: SMALL CHARITIES

Financial controls

Involving a range of people in finance processes is important to minimise the risk of mistakes and fraud. A number of smaller organisations have talked about the difficulties of doing this and their struggle to create effective checks and balances, in particular segregation of duties, when there is one person doing all the work.

There are some key basic controls that all small charities should set up:

- budget and related management reporting;
- authorisation of expenditure rules;
- bank mandate (including dual signatories for payments);
- bank reconciliation.

TOP TIP: The most important thing is to get agreement from the Trustees, to write the rules down and create routines so everyone is clear what is expected of them, and when. I would recommend that staff and Trustees work through the Charity Commission's CC8 Checklist together as a starting point http://bit.ly/2mkeb7g

Many participants attend the sessions claiming to know nothing about finance, but I have found that with the structure of the training sessions, and when they have time to reflect with other people, their confidence grows. They realise that the often very technical areas of charity finance are not something to be intimidated by, and that they know more than they thought they did!

Rachel Cooper
Small Charities Programme Trainer

"What I hope the Small Charities Programme will achieve through training and the provision of resources is that the people we reach improve their skills and financial knowledge and, more importantly, increase their ability and capacity to take control."

KEY CONSIDERATIONS SMALL CHARITIES

As the sector gears up for 2017, Finance and Accounting Consultant Andy Nash, who specialises in charities and non-profits, sets out his priorities for small charities in the year ahead.

In what has been a challenging few years for charities, it has been smaller charities that have on the whole taken the hit. 2016's Civil Society Almanac clearly shows that growth in overall income across the sector has been within a few large charities, at the expense of smaller charities. As someone who is passionate about the role of small charities which are often closer to the beneficiaries and more agile, here are my top tips and considerations for the year ahead.

Keep income diversification simple

One of the biggest challenges I see with clients is that their income is all focused around one stream, mainly grants and foundations for which there is increasingly stiff competition. Diversifying doesn't necessarily require using complex and expensive strategies around selling your services to local authorities, although this may be one option. Simple things such as making sure donors can give online or via standing order, or even approaching local businesses are low-cost easy ways to at least start that diversification process. As a smaller charity you can connect with your local community on a totally different level.

Avoid mission drift

As the competition for grant funding increases more charities are trying to fit their objectives around an application, rather than selling their own objectives to funders, with the charities realising two years later that they are no longer meeting their core purpose. This has two outcomes. Firstly the funders see straight through it and in addition to failing at the first stage, you jeopardise future opportunities, even if they may be more relevant. Secondly, you alienate your key supporters as they no longer feel they are supporting your original objectives – don't let larger funders push you in a direction that is not right for you.

Make your accounts sing!

As the media and public scrutiny of charities increases, your accounts can and should become one of your biggest assets. Regardless of the challenges of implementing the new SORP, especially for smaller charities, this is an opportunity for you to sing about your achievements, show how efficient you are, and most importantly the impact that donations have had on your beneficiaries. Small charities can't afford to spend thousands on glossy publicity, but your accounts should tell your story – don't just use them as a legal requirement that must be met. And find an accountant who will help you tell that story.

Get the right ongoing support

With new regulations coming out on what feels like a weekly basis on an ever-increasing breadth of topics, and another imminent revision of the Charity SORP, it's incredibly hard for a small team, often without a qualified accountant, to keep up. Therefore make sure you get the right support. As hard as it seems to find them, have an accountant as your Treasurer and ensure they stay up-to-date with charity regulations – there are multiple free recruitment channels, including the ICAEW Volunteer site and the CFG/Third Sector Jobs Board. If outsourcing your finance function, make sure it's to someone who understands charities. Any other company would look for a sector specialist and you should be no different.

Use a good independent examiner

The same principle should apply to your independent examination. A recent review of accounts we completed for charities in our local area, showed an alarming number of those below £500,000 income who had received a clean independent examination but were not in line with the latest SORP. Don't just go for the pro-bono option – a good independent examination should

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provide an annual health-check for your organisation and be an opportunity for you to make sure your financial controls are fit for purpose and help your Trustees reduce the risk of fraud.

Remember your staff are your biggest asset

The ongoing pension auto-enrolment process is being seen as a chore and yet another drain on resources by most charities, but it is a real opportunity to review the way you recognise the contribution of your staff – without them you would be stuck! It's far easier to get grant funders to cover pension contributions and other benefits, than wider overheads so this is an opportunity to say thank-you to your staff, it's not just another box-ticking exercise.

And finally – don't obsess about Brexit!

Without doubt there will be an impact on charities over the months and years ahead as the UK starts to extradite itself from the EU. What form that will take is almost impossible to tell at the moment, yet it is the key question I get asked by clients. Until we know this there is little we can do, so let's monitor the situation and focus on what we can control!

Andy Nash
Andy Nash Accounting & Consultancy

> "As a smaller charity you can connect with your local community on a totally different level."

TEN-POINT CHECKLIST FOR ENSURING THAT YOUR CHARITY IS FIT FOR THE FUTURE

For many small charities, income from grants is essential. But how can you improve your chance of being successful when it comes to applying for grants? Harriet Stranks, Director of Grant Making (North and Wales) from Lloyds Bank Foundation offers a ten-point health checklist to ensure that your charity stands out.

At Lloyds Bank Foundation we know just how challenging it is for small and medium-sized charities at the moment. Income is in decline whilst demand for services grows every day. We've identified ten areas on which charities should focus their efforts to build capacity, which will pay dividends in the long run and ultimately increase your 'fundability'.

1. Finance
Many charities sleepwalk into financial trouble because they do not have a solid understanding of their finances, and worry about the future when it's too late. Having a robust understanding of finances helps charities spot and mitigate risks. Reporting and discussing finances regularly allows the charity to work together to address any risks and create contingencies. CFG's training for small charities is a good place to start!

2. Funding
Thinking about new ways of diversifying income and introducing new assets is very important. This might be through fundraising, having a mixed economy where some people are charged for services, regular giving schemes or trading, for example. There can be risks involved and this comes with a health warning as it needs careful planning, but charities that do not embrace new ways of raising funds will be left behind as more enterprising local charities fill the void.

> "Charities that do not embrace new ways of raising funds will be left behind as more enterprising local charities fill the void."

3. Digital Skills
Embracing digital fundraising and social media will be crucial to survive and thrive. Millennials see the world through a screen and if your charity doesn't have a strong internet presence, optimised for mobile, you will deter a whole generation of potential support. Digital fundraising is increasingly important, and essential if you're going to stay ahead. Lloyds Bank Foundation has links to free tools for charities on our website: www.lloydsbankfoundation.org.uk.

4. Competition and branding
Charities are in competition with each other; for funding, clients, reputation and employees. Whilst it is important to collaborate, charities also need to build competitive advantage. Everyone in the organisation should know the 'elevator pitch' and understand the unique selling point (USP) of the charity to create a unified brand with a clear direction. Mapping competitors' strengths will also help to spot your own charity's weaknesses and identify areas for growth.

5. Investing in staff
Many charities simply focus on training which complies with legislation or the basic competencies of a role. However, identifying and addressing skills gaps will help staff develop within their roles, provide stretch and motivation, support delegation and build credibility and trust. Training also helps with succession planning and transferable skills across roles. Training should be viewed as an investment, not a cost.

6. Understanding your impact
Charities should not measure impact to report back to funders, it should be to understand the user experience and to improve services. Investing in a database will transform a charity from one that thinks that they do well to one that knows it does well – and can prove it. Reflective learning from results is critical.

7. Networking and leadership
Charity leaders need external sources of support and like-minded people to talk to. This might be through formal networks, mentoring or action learning sets. The external validation of ideas builds confidence to act, reduces isolation, raises ambition and promotes strategic thinking. Without active leadership a charity cannot become stronger.

8. Building trust locally
Building trust within the community brings its own rewards in referrals, reputation and funding. Being consistent and building relationships with clients creates longer-lasting impact and enables transition to lasting change. Recruiting local volunteers builds a skilled future workforce and enhances social capital in the local community.

9. Strategic thinking
Investing in away days, agreeing your mission, values and annual operational plan helps staff and Trustees align in one clear direction. It also affirms confidence in the leadership and motivation in the team. Recognising and celebrating successes makes people feel valued and looking ahead supports aspiration to grow and become stronger.

10. Support Trustees
Appreciate Trustees by providing training and opportunities for engagement. Prepare well for Board meetings and give assurance that the organisation is being well-run by providing transparent management information and regular reports. Appoint Trustees for a fixed term and induct new Trustees well. Good Trustees will act as ambassadors and champions of the charity, thus enhancing the reputation and brand.

Harriet Stranks
Lloyds Bank Foundation

> “Everyone in the organisation should know the ‘elevator pitch’ and understand the unique selling point of the charity to create a unified brand with a clear direction.”

TOP TIPS FOR SMALL CHARITIES: WHEN TO STOP AND WHERE TO START

Small charities are being pulled in all directions. The checklist of challenges can be overwhelming; increasing pressures on funding, increased paperwork, increased demand for services – all compounded by an uncertain future. Becca Bunce from Small Charities Coalition has a plan: stop, and put the kettle on!

When speaking to people running small charities, conversation naturally drifts to burn-out. Waking with a jolt at 3am, remembering a task that needs to be done, working extra hours to meet the needs of beneficiaries and concerned that you may not even be around in a few months' time. So in writing top tips for small charities, this seems the logical start point.

It is not losing sight of the fundamentals of charity: governance, fundraising strategies, collaboration and beneficiaries needs are all important. But, it is difficult to make strategic decisions and take action when you are exhausted by a hostile external environment; concerned about the future support for your beneficiaries and lacking resource to get to the bottom of what may feel like a never ending to-do list.

As a small charity ourselves, at the Small Charities Coalition we are aware of how difficult it can be to follow this advice – and we have to remind ourselves to take this advice. We also are aware that not everyone reading this will be from a small charity, but understand the importance of creating a supportive environment that allows small charities to thrive.

So where to start?

When challenges are this big and there is this much uncertainty it is worth going back to the basics. Rest, headspace, connection to others and finding a supportive community are all seen as extras or 'nice to have'. But these are fundamental needs as humans. We need to reassess our thinking about these in terms of business planning and acknowledge that rest, self-care and community support are all strategic priorities.

TOP TIPS:

1. Pause
2. Have a cup of tea
3. Reach out to a friend
4. Get support

1. Pause

"I don't have the time to stop" is a familiar refrain for many in the sector. I think we have all said that at some point. Yet, keeping going runs the risk of developing both decision and compassion fatigue.

Small charities across the UK are made up of passionate, hard-working and driven individuals, determined to make a difference. This passion and drive when pushed too far can also be the undoing of both individuals and organisations.

Resilience and sustainability of all organisations depends on the people in the organisation and the support around it. If people don't have sufficient headspace and feel isolated in their work then it is easy for people to become overwhelmed by the responsibilities they face and take on within a small charity.

Pausing is not stopping completely. It is recognising that we are human, and for our brains to function well, we need to take breaks.

2. Have a cup of tea

Whilst having a break, can we suggest a cup of tea? The answers to everything are unlikely to be in the tea leaves however!

But whether it is having a cup of tea or stepping away from your desk – it is important to make sure you are looking after yourself.

For many small charities I imagine being told to take time for yourself would get an eye roll and retort, "Where is the time?"

It's a cliché to remind people that on an airplane we are instructed to put our oxygen mask on first before helping others. But it's a good one. Small charities are often so focussed on the needs of beneficiaries that it is easy to lose sight of your own. A small break and stepping back can help give some often much-needed perspective.

This is not ignoring that many organisations are in crisis mode. The loss of funding for small charities over the last five years has been particularly painful, from the loss of grants and small contracts, to increasing competition for trusts and foundation funding, or social investment not being appropriate and a lack of awareness or appropriate platforms to drive individual giving.

It feels hard to justify a break to yourself, and feels more so to funders. But, continuing without a break is a threat to the sustainability of an organisation.

Even though it's difficult to carve out the time, looking after yourself is important and will also enable you to better support your organisation and beneficiaries.

When you have made time for headspace, it is a good opportunity to...

3. Reach out to a friend

Small charities often tell us that they feel isolated and unsure where to turn. Peer-to-peer support is often vital for keeping you in the loop, whether about changes to charity law or new commissioning practices, or simply to remind you that you are doing okay.

Isolating yourself can feel tempting when there is so much to do, and meeting with someone can feel like another task on a never-ending to do list. But again, stepping away, getting a different perspective can help you see a problem more clearly and feel more supported to do your work.

4. Get support

Whilst small charities are facing many challenges, the key thing is that you don't have to do this alone. Knowing which problem to solve, and in which order can be daunting. And this is where getting support is important.

Attending an event or making time for mentoring can seem frivolous or unjustifiable, given the lack of time, headspace and support. But stepping away, making connections and exploring the challenges is necessary to help with steering through difficult times.

Sometimes you will clearly know the support you need, but as Small Charities Coalition – along with other infrastructure and connecting organisations – knows, often identifying the problem is half the issue. If you don't know what the problem is – or have identified the wrong one – it is unlikely that you are able to find a solution.

Don't be afraid to seek support – or to take time to look what is out there.

Being a small charity ourselves and supporting thousands of small charities each year, we know there is room for improvement across all charities and that taking time to do this is difficult.

If you are looking for a quick start for support, then you can join Small Charities Coalition for free to access a range of services, from 1:1 mentoring, low-cost or free training, events, our helpline and our resources.

We'd also recommend CFG's Small Charities Programme which is helping small charities skill-up on key finance issues. Or contact NAVCA to find out about your local CVS.

"This is all a really nice idea, but it still won't solve all the external issues."

Coming back to the external environment, whether steering through Brexit or navigating commissioning – there are still challenges. We know they are difficult to overcome.

Part of our role at Small Charities Coalition is championing the work of small charities and making sure the brilliant people who work in these diverse organisation are valued by the wider system we inhabit – whether the third sector, government or for-profit.

And just as you and your small charity are dedicated to ensuring communities are supported, we are working with others such as CFG to make sure that, as we move into an uncertain future, we as a community support you.

Sometimes, the only way to start is to (briefly) stop.

If you would like to raise a small charity issue please email: becca@smallcharities.org.uk

Becca Bunce
Policy and Engagement Manager, Small Charities Coalition

> **"Even though it is difficult to carve out the time, looking after yourself is important and will also enable you to support your organisation and beneficiaries."**

10
HR AND RECRUITMENT

IN THIS SECTION

CHARITY HR: WHAT TO LOOK OUT FOR IN 2017

> **"One thing that is for certain is that employers will have to play a bigger role in staff welfare and development."**

From the macro-economic issues of Brexit and its impact on inflation, to the ongoing pension changes and the Apprenticeship Levy, the list of HR issues for the charity sector – which can be less resilient than others to change and uncertainty – appears to be endless. Charity HR expert Peter Reeve takes a look.

In the face of this uncertainty one thing is for certain – employers will have to play a bigger role in staff welfare and development. Staff will look to us to play a bigger role in their lives, helping them with their career choices, retirement planning and even in establishing if they can legally remain in the country.

So, in the face of that wave of uncertainty, what can we do? First and foremost it will be about being open and transparent with our staff about what we do know. Second, we have to think about what we can do as employers to more creatively support our people.

Respond to increasing inflation

If inflation does hit the predicted 3–4% in 2017, most charities will struggle to keep pace in terms of salary increases. So it is likely that in 2017 the value of many people's real income will fall. To address this, charities can:

- Review staff benefits. Although salary sacrifice has been curtailed there are lots of schemes such as cash health plans that, for a small investment, can help to save our staff money on a daily basis. Depending on your workforce there also options around using the salary sacrifice arrangements for pension contributions;
- Think about offering help with independent financial planning – lots of employers will be looking at this. It can particularly help older staff deal with the pension changes that we used to be able to support with pre-retirement training.

Review your HR policies

Charities may also have to look at some of their terms and conditions, and ask difficult questions like 'can we really afford to offer the same level of support any more?' My organisation recently changed the level of support for staff who work at home for our new starters. We explained the reasons for the change and how we reached that decision and so far the reaction has been, well, non-existent.

We also need to be more imaginative. For example, for those of us who will have to pay the Apprentice Levy, the obvious thing is it to think about it as an opportunity to employ a traditional young apprentice. However, it doesn't have to be, it can just as easily be used to support the development of existing staff, and remember with the levy – use it or lose it!

Keep an eye on Brexit

All of the current 'mood music' is that Brexit is not going to see a wholescale unpicking of European workers' rights legislation, such the core working time directive, which will, I'm sure, reassure many. However, one area of concern is the ongoing employment and residency rights of European nationals in the UK and vice versa. Whilst it is generally held that we are not going to unilaterally move on this the context of a global negotiation, it does significantly underplay the very real concerns felt by real people in our teams.

Once again it is important to communicate openly. Simple statements emphasising the important role European workers play in your organisation can just help to reassure people that you haven't forgotten them, while the politics play out over the next few years.

In that context it's really important for HR to keep up to date through organisations such as Charity Finance Group and, if opinions are asked for, then to come forward. Government policy often appears to be driven by big business, often because they are the best at telling Government what they think.

Keep calm and carry on

All of this is being played out in the context of each of our organisation's charitable aims and ethos. For example, how should a charity that supports older people manage its own older workforce? In those organisations a calm HR 'hand on the tiller' will be essential to avoid hasty decisions or over-reactions.

In overall terms for HR, I think 2017 is going to be a year of change, uncertainty and pragmatism. We are likely to find ourselves dealing with issues which are really sensitive to many people and out of the comfort zone of many managers. As HR professionals I think all we can do is listen, tell people what we can, and be honest about what we can't tell them.

Peter Reeve
Head of HR at the Motor Neurone Disease Association (MNDA) and Chair of the Charities HR Network.

SECTION 10: HR AND RECRUITMENT

PREPARING FOR THE APPRENTICESHIP LEVY

One of the Government's key reforms to how apprenticeships are delivered and funded is the Apprenticeship Levy. The levy requires all employers with a £3m+ pay bill to invest in apprenticeships. This helpful guide from the Skills Funding Agency explains the reforms in detail and shows how you can prepare.

Apprenticeships are at the heart of the Government's drive to equip people of all ages with the skills that the country and employers need. They provide the opportunity, and the means, to help address the skills shortages reported by many industries.

Over the last few years the Government has embarked on a large-scale programme to reform the way apprenticeships are delivered and funded in England. The reformed apprenticeships are more rigorous, better structured, independently assessed and more clearly aligned to the needs of employers.

The reforms address the skills shortages reported by many industries and help keep the UK internationally competitive. Most importantly, the reformed apprenticeships offer high-quality opportunities for people to develop their talents and progress their careers.

The employer-led reforms are changing the way the Government funds apprenticeships in England. Some employers will be required to contribute to a new Apprenticeship Levy, and there will be changes to the funding for apprenticeship training for all employers.

Who will pay the Apprenticeship Levy?

The Apprenticeship Levy came into effect on 6 April 2017, requiring all employers operating in the UK, with a pay bill of over £3m each year, to invest in apprenticeships.

The levy rate has been set at 0.5% of an employer's annual pay bill. Employers will receive a £15,000 fixed annual allowance (not a cash payment) to offset against the levy payment.

Employers with multiple payrolls and connected employers will only be able to claim one allowance for the levy.

Find out more about calculating the levy for connected companies or charities on gov.uk.

How will the levy work?

With the changes to apprenticeship funding imminent, there are some things that employers operating in the UK must do now.

If you are an organisation, including any connected companies or charities, that has an annual pay bill of more than £3m, then you should:

- start planning how your business could use apprenticeships;
- read the employer guide on paying the levy: http://bit.ly/CFG_levy
- use the online tool to calculate your levy contribution, begin to plan training and estimate what you will have available to spend on apprenticeships: http://bit.ly/CFG_levy_est
- register on the apprenticeship service: http://bit.ly/CFG_levy_reg

If you are a UK employer with a pay bill of less than £3million then you will not be required to pay the Apprenticeship Levy.

In England, the Government will pay 90% of your apprenticeship training and assessment costs, up to the maximum amount of Government funding available for that apprenticeship. You will cover the additional 10%, as well as any additional costs you agree with their chosen apprenticeship training provider.

The Government is offering additional support to organisations:

- if the employer has fewer than 50 employees the Government will pay the full cost (100%) of training and assessment costs for apprentices aged 16–18;
- in recognition of the additional costs associated with training younger apprentices, both the provider and employer will receive an additional payment of £1,000 for taking on a 16–18 year old.

Both these measures also apply to 19–24 year olds who were formerly in care or who have an *Education and Health Care plan*.

The Government has also waivered National Insurance contributions for 16–25 year old apprentices.

From May 2017, levy-paying employers will be able to access funding for apprenticeships through their apprenticeship service account. In preparation for the introduction of the levy, employers should register to set up their account now at: http://bit.ly/CFG_levy_reg

The levy will apply to employers across the UK. The apprenticeship service will support the English apprenticeship system. Scotland, Wales and Northern Ireland have their own arrangements for supporting employers to access apprenticeships.

What are the benefits of the levy?

The introduction of the new levy will dramatically change the way apprenticeships are funded. Through the levy, double the amount of money (£2.5bn) will be invested in apprenticeships in 2019/20, enabling growth of opportunities for people of all ages and from all backgrounds.

Organisations will be able to establish new apprenticeships and increase the number of apprentices they currently recruit, while also being able to up-skill their existing workforce with higher or degree-level apprenticeships.

Through the levy, the Government is investing £60m in supporting the training of apprentices from the poorest areas in the country, as well as providing an additional £150 a month for training providers to give extra learning support to an apprentice with learning or other disabilities to ensure social mobility for all.

The levy offers employers more control over apprenticeships to boost skills gaps within their organisation and tailor training opportunities to suit their needs.

Apprenticeship standards

New apprenticeship standards are part of the reforms to apprenticeships, like the levy. Groups of employers (trailblazers) that want to create quality apprenticeships for their sector are developing new apprenticeship standards.

We now have 159 approved apprenticeship standards ready to use across a range of sectors including nursing, financial services, food and drink and healthcare. More than 470 standards are either approved or in development. For more information on the standards: http://bit.ly/CFG_app_standards

All apprenticeships approved for development can be found at: http://bit.ly/CFG_app_dev

> **"The introduction of the new levy will dramatically change the way apprenticeships are funded."**

Where to find out more?

Getting the most from the reformed apprenticeships will depend on the involvement and commitment from employers.

To find out more:

- Search for apprenticeship on gov.uk
- Call us on 08000 150 600
- Email: helpdesk@manage-apprenticeships.service.gov.uk

Apprenticeships

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RE-ENROLMENT – WHAT EMPLOYERS NEED TO DO AND BY WHEN

Every three years, employers must 're-enrol' certain members of staff into a qualifying pension scheme. Here, The Pensions Regulator (TPR) explains how to assess employees' criteria for re-enrolment, the key steps it takes, and provides guidance on when to re-enrol and re-declare.

Every three years you must put certain members of staff back into an automatic enrolment pension scheme. This is called 're-enrolment'.

Your duties will vary depending on whether you have staff to re-enrol or not. Either way, you will need to complete a re-declaration of compliance to tell The Pensions Regulator (TPR) how you have met your duties.

Re-enrolment checklist

- ✓ Choose your re-enrolment date
- ✓ Assess your staff
- ✓ Write to the staff you've re-enrolled
- ✓ Complete your declaration of compliance

Approaching your re-enrolment date?

You can complete your re-declaration of compliance at the same time

Step 1 – Choose your re-enrolment date

Your re-enrolment date is chosen by you (within a six-month re-enrolment window) and is when you assess all your staff for re-enrolment.

Your six month re-enrolment window starts three months before, and ends three months after the third anniversary of your automatic enrolment staging date. Your re-declaration deadline will be five months after the third anniversary date. An example is below to help you work out your deadlines.

When choosing your re-enrolment date, you may decide to align your re-enrolment date with your other business processes such as the start of your financial year, or to avoid seasonal peaks. You should note that postponement cannot be applied at your re-enrolment date.

EXAMPLE OF RE-ENROLMENT AND RE-DECLARATION	
Staging date	1 July 2014
Third anniversary of your staging date	1 July 2017
Re-enrolment window	1 April 2017 to 30 September 2017
Re-declaration deadline	30 November 2017

Step 2 – Assess your staff

On your re-enrolment date, you'll need to assess certain staff to work out if you need to put them back into your pension scheme.

You only need to assess certain staff for re-enrolment. You must assess staff who have:

- asked to leave (opted out of) your pension scheme;
- left (ceased active membership of) your pension scheme after the end of the opt-out period;
- stayed in your pension scheme, but chosen to reduce the level of pension contributions to below the minimum level set by law.

You can leave out from your assessment any staff member whom, on your re-enrolment date:

- is already in the pension scheme you use for automatic enrolment (a qualifying scheme);
- is aged 21 or under;
- is at state pension age (SPA) or over;
- is being postponed for automatic enrolment (for example, a new member of staff).

If you have staff to re-enrol you must put them back into your pension scheme (and start paying into it) within six weeks after your re-enrolment date.

If you don't have staff to re-enrol, you must still complete a declaration of compliance.

Step 3 – Write to staff that you've re-enrolled

Within six weeks after your re-enrolment date, you'll need to write to each member of staff that you've re-enrolled to tell them you have put them back into your pension scheme. Your pension provider may be willing to do this for you, or you can adapt TPR's letter template.

Step 4 – Complete your re-declaration of compliance

Re-declaration is an online form which tells TPR what you have done to meet your duties. This must be completed and submitted within five months of the third anniversary of your automatic enrolment staging date.

Even if someone else (a member of staff, or a business advisor) has helped you with your duties, and may even be completing the re-declaration for you, it is your legal duty as the employer to make sure that the re-declaration is completed on time and the information entered is correct. If not, you may be fined.

If you have all the relevant information to hand it can take as little as 15 minutes to complete – some of the information will already be pre-populated from your original declaration of compliance.

TPR recommends you complete and submit your re-declaration as soon as possible after your re-enrolment date – don't wait until the last minute, as you risk a fine if you miss the deadline.

What to expect from The Pensions Regulator

TPR will send you a series of letters and emails telling you what you need to do.

It's important that your contact details are kept up to date with TPR, in order that notifications and reminders can be sent to the right person. You can update your details online.

Supporting resources

- Essential guide to re-enrolment: www.tpr.gov.uk/re-enrolment
- Letter template: www.tpr.gov.uk/write-re-enrolled-staff
- Re-declaration of compliance checklist: www.tpr.gov.uk/re-enrolment
- Update your contact details: www.tpr.gov.uk/employers/nominate-a-contact.aspx
- Sign up for The Pensions Regulator's monthly news by email for all the latest information, tools and resources: https://forms.thepensionsregulator.gov.uk/news-by-email/subscribe

The Pensions Regulator

> **"Even if someone else (a member of staff, or a business advisor) has helped you with your duties, and may even be completing the redeclaration for you, it is your legal duty as the employer to make sure that the re-declaration is completed on time and the information entered is correct."**

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WHAT COULD AN APPRENTICE DO FOR YOU?

As a charity, have you ever considered taking on an apprentice in your finance team? As Mark Cornish from The Challenge explains, it can be a way of boosting your capacity – and contributing to the future of the sector.

Any moment now the Government is expected to make a formal announcement on the Apprenticeship Levy and charities should be listening closely. Covering this pertinent subject in his address last year, Minister for Civil Society, Rob Wilson positioned it as an 'opportunity not to be missed'.

The significant details, specifically concerning unused charity sector levy payments, are yet to be confirmed but the Government is keen to drive a 'use it or lose it' attitude.

With resources always at a premium in the sector, a pool of young people looking for more work-focussed, cost-effective alternatives to university is surely an avenue worth exploring. Not only are apprentices an economic way to fill key roles, but investing in young people's futures will pay dividends for the future of your organisation and for the sector as a whole.

On the Step Forward scheme, apprentice 'Associates' are given extensive support by mentors and tutors to mature into effective professionals over 12 months. Whilst studying professional qualifications at Level 3, such as AAT Accounting, they spend most of their time developing skills on-the-job, plus have a fortnightly opportunity to mix with peers on personal interest projects. This combination of activity, learning and support contributes to the 88% Step Forward apprenticeship completion rate[1], against the national average of 64%[2]. The total cost to employers is just £12,000 per Associate.

The opportunity to economically staff a central function, such as Finance, with well-trained capable, socially-adaptable young people means that Step Forward has provided Accounting apprentices to numerous charities including Teach First, National Literacy Trust and Comic Relief.

Comic Relief took on accounting apprentice, Adiba Javid, in 2014. The charity watched her develop into a proficient finance professional over 12 months, and following the successful completion of her Level 3 qualification, offered her the opportunity to study Level 4. She has now been accepted onto the KPMG training programme to further progress her career.

The Challenge itself has also taken on Step Forward accounting Associates. Last year, its first associate started in the finance team and following the successful completion of her apprenticeship, retained her the following year. With The Challenge experiencing a period of rapid growth, it seemed like the perfect opportunity to take advantage of the scheme and the team has now taken on a further two more accounting Associates.

Rob Ovens, CFO at The Challenge, said, "We have found the Associates who have worked for us to be enthusiastic and high quality, so much so that we employed our first one full time at the end of the programme, and will do the same again this year with this year's Associate. The added benefit of this is that we are able to recruit young, capable and enthusiastic trainee accountants without the cost of recruitment fees."

It's not just the employers that benefit either. Accounting associates have the opportunity to earn a salary whilst studying an internationally-recognised qualification, mix with other young people and learn invaluable career and life skills, providing a credible alternative to university. The Accounting pathway specifically provides the opportunity to study a wide range of practical finance topics such as bookkeeping, professional ethics and management accounting. From a young person's perspective, these skills can be transferable into other sectors and professions.

From the perspective of being a charity, employees are often required to take on a wide remit and extra responsibility, this is invaluable. It also gives management the opportunity to work on more strategic projects whilst the apprentice learns their trade.

Associates are recruited from all cross-sections of the community, meaning that the most able young people are accepted onto the programme regardless of background. Over 50% of the Step Forward Associates are recruited from the nationwide social integration and volunteering programme, NCS, for 17 year-olds. This connection to Step Forward gives the organisation access to 98% of secondary schools in London.

***Step Forward** is always keen to hear from London-based charity employers that may be interested in the Accounting apprenticeship scheme. We are currently selecting the most able young people for entry-level roles across a range of industries and functions.*

*For more information, please visit **www.stepforward.uk.com** or call Tom Daltas on **020 3793 7333.***

1. Based on 2014-2015 completion rate figures
2. Source: https://www.gov.uk/performance/find-an-apprenticeship/completion-rate

> **"Accounting associates have the opportunity to earn a salary whilst studying an internationally–recognised qualification, mix with other young people and learn invaluable career and life skills, providing a credible alternative to university."**

***Step Forward** is an apprenticeship scheme for school leavers run by social integration charity The Challenge. The Challenge, which also runs the National Citizenship Service (NCS), creates programmes that bring together people of all ages, ethnicities and walks of life. Its London-based Step Forward programme builds this mission into an apprenticeship scheme that creates well-rounded, qualified young people with the confidence and advanced social skills that allow them to be an asset to any employer.*

Mark Cornish
Head of Finance, The Challenge

CFG NOW OFFERS BESPOKE CHARITY FINANCE TRAINING FOR YOUR TEAM

contact a family
for families with disabled children

Natalie Keppler introduces CFG's new training service and looks at how it helped Contact a Family strengthen their grants programme

Towards the end of 2016, Charity Finance Group launched its in-house training service in response to members' requests for training that could be tailored specifically to the needs of their organisation.

The bespoke training complements CFG's programme of open training – if you have several people to train, we can deliver existing tried-and-tested programmes in-house. Or we can work with you to design and deliver a completely bespoke session or programme. All sessions draw on the expertise of both CFG staff and our Corporate Members.

Benefits include:

- **Relevant content** – covering topics that are specific to your needs
- **Flexible delivery** – offered at your preferred location, in a format that maximises learning outcomes
- **Convenience** – training can be arranged at a time and location to suit you
- **Team building** – working across your organisation, training can allow for useful networking opportunities, and knowledge sharing

To find out more contact Natalie Keppler on 020 7871 5470 or email: natalie.keppler@cfg.org.uk

Last September, we delivered a bespoke training day for Contact a Family. Ben Bennett, Grants Programmes Officer spoke to CFG about how the training has helped the charity strengthen its grants programme.

CFG: Can you tell us a little bit about Contact a Family?
CaF: We support UK families with disabled children. As well as helping individual families, we support groups of parents who are part of parent carer forums working with local authorities in England, trying to improve the support and services offered to all families. I work in the parent participation team, which administers a grant available to parent carer forums to enable them to do this vital work.

CFG: How important is fraud awareness and management to the charity?
CaF: We are funded by a range of sources and we need to demonstrate that we are reliable custodians of public money.

CFG: What were your training needs and objectives?
CaF: We wanted Contact a Family's parent participation team to gain the confidence to develop our financial policies and procedures to ensure the approval process for our grants programme is effective and robust. The training will help us advise the groups of parents we work with on good financial practice.

CFG: How did you hear about the training and how easy was it to develop the package to meet your needs?
CaF: We wanted a trainer with experience of the voluntary sector and the issues we face. Our needs were about providing support to the parent carer forums that receive grants. We were delighted how CFG tailored the course material specifically to these needs.

CFG: Did delegates find it useful and how will it help them in their work?
CaF: We will use it to develop our processes and policies, ensuring our grants programme is robust. It will also help us to support the groups of parents we work with and enable them to continue their great work.

Natalie Keppler
Training and Content Manager, Charity Finance Group

BREXIT – WHAT IMPACT ON EMPLOYMENT LAW?

There has been considerable discussion about the impact of Brexit on the charity sector and there is no doubt that significant change is on the way. But how will it affect charities as employers? Andrew Davidson of Hempsons looks at the potential implications.

EU legislation and case law has had a huge impact upon UK employment law and so it is very likely that Brexit will have an impact on employee protection and employee rights.

The Secretary of State for Exiting the EU, David Davis MP, has given a strong indication that the Government has no intention of removing employment law protection but, depending upon the impact Brexit has on the economy, changes are still possible.

The first thing to keep in mind is that nothing can happen quickly. Even if the Government wanted to remove all EU generated employment legislation it would take a long time to do this. EU legislation and case law runs like a thread through nearly every aspect of UK employment law. It will not be as straightforward as simply repealing a few acts and regulations. Government lawyers will be busy for quite a while.

In addition it is unlikely that any UK government would be keen to remove all of the protection granted by European legislation. This Government and the coalition Government before it have changed employment rights (e.g. ET fees, increasing unfair dismissal service requirement to 2 years) but they have left the bulk of employee protection in place.

It should also be borne in mind that not all employment protection comes from EU directives. Whistleblowing protection (under PIDA) arose purely from UK legislation (although other EU countries have similar protections); equally some protections (e.g. equal pay) were introduced before the UK joined the EU.

So where might there be some changes in due course?

The likely areas for change are:

- **TUPE** – In principle it could be removed in its entirety but we anticipate that it will remain albeit with some modification. We would expect the Government to relax the prohibition on post-termination harmonisation of terms and conditions. They might also relax the consultation obligations.
- **Agency Worker Regulations** – Giving agency workers rights after 12 weeks appears to be unpopular with employers and is unlikely to be strongly defended by the unions, this protection could be removed.
- **Working Time** – It's unlikely that the protections on working time will be removed but we would expect the Government to modify the provisions. The ghost of the Bear Scotland case (a case concerning holiday pay) could be put to rest with the Government clarifying that a week's pay is limited to basic salary only. They could also make changes to the way sick pay accrues during a period of sickness absence (e.g. limit it further or remove it altogether on the basis that workers do not need a break from working time if they are off sick).
- **Discrimination** – There are unlikely to be any significant changes but there is the possibility that the Government will introduce a cap on discrimination awards, as they did for unfair dismissal awards.
- **Collective Redundancy Consultation Obligation** – This is unlikely to be removed entirely but the numbers could change (e.g. only required where you propose to dismiss 100 or more at one establishment within a period of 90 days or less).

> "Even if the Government wanted to remove all EU-generated employment legislation it would take a long time to do this. EU legislation and case law runs like a thread through nearly every aspect of UK employment law."

- **Status of EU nationals living and work in the UK** – There is no certainty that existing EU nationals living and working in the UK will be able to remain, or in relation to what the entry requirements for those individuals and new EU migrants might be post Brexit. However, the Government issued a statement on 11 July 2016 to reassure EU nationals living in the UK, which stated "When we do leave the EU, we fully expect that the legal status of EU nationals living in the UK, and that of UK nationals in EU member states, will be properly protected. The Government recognises and values the important contribution made by EU and other non-UK citizens who work, study and live in the UK." A Private Members' Bill was introduced to Parliament (on 12 July 2016) proposing to grant EU citizens the right to stay resident in the UK following the UK's withdrawal from membership of the European Union.

There is great uncertainty at the moment about how Brexit will impact upon the UK economy. If the economy is adversely affected there may be more willingness from the Government to reduce employment protection in order to make the UK more competitive but it is too early to tell.

We anticipate a lot more discussion on potential changes to employment law in the months and years to come.

Andrew Davidson is the author of the 2016 CFG Employment Status Guide which provides a comprehensive overview of your employment status issues. You can download the guide from the CFG website http://bit.ly/2aP9bBY.

Andrew Davidson
Partner (Employment), Hempsons

11 IT AND DATA INSIGHT

IN THIS SECTION

THE ROLE OF FINANCE IN DIGITAL TRANSFORMATION

Why is digital transformation important, and how can you help support it? Nevil Durrant of Eduserv summarises a debate held at CFG's IT and Data Insight Conference 2016.

What exactly is 'digital transformation?' It's one of those buzzwords that tends to trip off the tongue without many outside the inner circle really understanding the true meaning.

When we did a show of hands last year at CFG's IT and Data Insight Conference, there weren't too many in the audience that were favourable towards the phrase. Also, when we researched this topic for our recent report on business transformation in charities (available from www.eduserv.org.uk), we found that heads of digital are currently extremely frustrated with finance departments and their perceived lack of understanding of what digital can really achieve. In fact, our research showed that just a quarter of digital leads think their FDs understood what they're trying to achieve.

A question of language and 'fingers burned'?

Maybe the problem is in the language and the word 'transformation' itself.

Many charity finance professionals can justify this attitude because they are still scarred by technology 'transformation' projects that failed to deliver on big promises in the past. They also recognise that any kind of transformation is going to need support from widespread change in culture and that sounds quite daunting. Many FDs tend to believe this won't happen.

This is not really a healthy situation. Although nothing as dramatic as Uber or Airbnb has happened in the charity sector just yet, many charities should be looking closely at the possibility of new, digital-based start-ups that could threaten their share of both revenue and mindshare. If they don't, there could be serious problems on the horizon. The question for FDs is – are you prepared to risk the investment you will need to compete in this environment, or are you prepared to risk doing nothing?

It's really a question of overcoming inertia. And for that, I believe, FDs are going to need a degree more self-motivation when it comes to digital and not just 'allow it to happen'. But the real question for many is 'how?'

Drive the mindset that this is not just about a website or donations – it's about being a viable partner in a new era

One thing is for sure – FDs could have a really key role to play in driving the understanding within their organisation that digital is not just about boosting online donations or getting more views on YouTube, because it could be the key to long term financial sustainability. Right now, many charities are facing increasing competition from the private sector and new entrants who offer similar services. Others are working increasingly closely with health service providers, local authorities and a range of other funders or service partners.

Within this context FDs could, and should, be persuading their Boards that a shift to digital working is the only real way that charities can compete credibly in this rapidly-changing environment. Indeed, if they don't adapt fast enough, and they don't invest in the right areas, they will face the very real risk of losing contracts or not having them renewed. If that's not a 'burning platform' that will encourage Boards to jump, I don't know what is.

Play your part in creating the environment for digital change

What about the culture change that's going to be required to make investment in new digital technology worthwhile? Many charities (certainly the larger ones) have already had a head of digital and a growing digital team for a few years now. But for true transformation to take place, digital can't sit alone in yet another departmental silo, and your Head of Digital shouldn't be expected to get on with the task alone.

As I've already mentioned, digital departments feel they are not understood by other departments – especially finance – and that's not a situation that should be allowed to continue.

Digital thinking needs to be all pervasive, and above all requires buy-in and support from leadership.

One of the other major findings in our recent *Business Transformation* report is that by getting HR involved with digital, so that technology and organisational/culture change will always go hand in hand. This makes sense, and it suggests that FDs should be thinking about insisting that HR has a 'change' plan before any new investment is made.

Above all, finance directors should be playing their part by pushing all departments, HR included, to scrutinise all their investment proposals against the overarching question – 'could we do this better and more efficiently and if we did it digitally?'

If they can do that, they really will be on the way to being an organisation that thinks 'digital first'.

Nevil Durrant
Finance Director, Eduserv

"The question for FDs is – are you prepared to risk the investment you will need to compete in this environment, or are you prepared to risk doing nothing?"

SECTION 11: IT AND DATA INSIGHT

DATA PROTECTION – ARE YOU PROTECTED?

How confident are you that your charity's data is safe from hackers or carelessness on the part of your users? With tougher rules set to come into force next year, what are the penalties for getting it wrong? How can you minimise the risk of data loss? PKF Littlejohn's Ian Singer examines the evidence.

Charities rely heavily on personal data relating to beneficiaries, donors and other stakeholders. But many organisations face serious challenges regarding the capture, processing and securing of this information.

What are the penalties for getting it wrong?

Both the risks and the likely penalties for suffering a data loss are increasing. The Information Commissioner's Office (ICO) stated recently that organisations need to rethink their approach to data protection and is backing up its warning with decisive action. In total, 36 organisations were collectively fined £2m in 2016, up from nine fines totalling £668,500 two years earlier. And don't think these large penalties are levied only on corporates: – as part of 'Operation Cinnabar', the ICO's inquiry into charity fundraising practices, 11 charities were recently issued with notices of intent to fine. You have been warned!

Meanwhile, the complexity of the sector's 'data landscape' is also increasing rapidly, with many charities now having to manage a mix of websites, internal networks, external data centres, roaming users, portable media, mobile devices, home PCs and so on. In recent times, we have seen a significant increase in the number of organisations looking to replace or upgrade their CRM and website applications, largely as a result of the failings of their current systems to support effective stakeholder engagement. On top of that, users, both internal and external, want to access your back-office and public-facing systems where they want, when they want and how they want. These cumulative pressures increase the need for organisations to keep data secure and users happy.

The difficulty for most charities is that they typically have limited financial resources and relevant expertise, and the focus is almost certainly on fundraising and the provision of services. But none of that will count as mitigating factors if you suffer a data breach or use personal information inappropriately.

How are the rules changing?

All personal data held by any organisation for any purpose is governed by the Data Protection Act 1998 (DPA) and the Privacy and Electronic Communications (EC Directive) Regulations 2003 (PECR). However, there is a new EU Directive, the General Data Protection Regulation (GDPR), which is due to come into force on 25 May 2018. The ICO has described the GDPR as 'a game changer for everyone' that brings 'a more 21st century approach to the processing of personal data'.

The GDPR is 127 pages long but the key changes relate to the need for consent from a data subject that is both explicit and informed, and the size of the fines that can be levied in the event of a data breach or non-compliance with the Directive – up to 4% of the annual worldwide turnover of an organisation or €20m, whichever is the greater. This is enough to put most charities out of business.

The UK's expected departure from the EU has raised uncertainties in a number of areas including data protection requirements. However, the ICO has made it clear in a recent statement that UK charities will have to adhere to data protection standards that are 'the equivalent of the EU's General Data Protection Regulation framework starting in 2018'. In other words, nothing really changes.

What can you do?

There are a number of steps you can take to minimise the risk of your charity suffering a data loss or using information inappropriately:

- Security and confidentiality of data must be at the heart of your IT decision-making, not just an afterthought;
- Ensure you have explicit consent for storing and using any personal information for the specific process for which you wish to use it;
- Encrypt confidential data. The ICO has said categorically that it will not accept any excuse for a data breach if the data were not encrypted, regardless of any other measures in place;
- Make sure you know what data you're capturing, where it is stored and how it is protected. Take particular care before entering into agreements with third-parties for data storage and processing, such as specialist emailing services or outsourced data centres.

Remember that you are responsible for your data at all times, regardless of where it is located or who is processing it;

- Ensure you have well-defined policies and procedures that are communicated regularly to all relevant personnel regarding both the security and use of personal information;
- Commit to an independent review of your measures and policies on at least an annual basis to identify issues and gaps;
- As a general rule, don't do anything with data unless you are certain that it is appropriate and secure to do so.

Ian Singer
IT Assurance Partner, PKF Littlejohn

SECTION 11: IT AND DATA INSIGHT

DATA PROTECTION, FRAUD AND YOUR REPUTATION ON THE LINE

Tony Jaffa from Foot Anstey provides an update and some practical advice on how to prevent damage to your reputation as a result of failing to comply with data protection regulations.

It takes many good deeds to build a good reputation… and only one data breach to lose it.

It is no secret that, in the current climate, every move a charity makes is being scrutinised by the media, and many others. And quite a number of the 'exposés' of charities that we have seen over recent years have related to data protection issues.

Data protection is an increasingly important area of law, and ensuring a charity is compliant goes hand in hand with protecting its reputation and by extension, fulfilling its charitable objectives.

A changing landscape

The precise wording of the new EU-wide General Data Protection Regulation (GDPR) has recently been released, as social media, apps, trackers and cookies mean that charities know an awful lot of personal detail about their supporters. The rationale behind the GDPR is to put control of data back in the hands of the individual, and also to harmonise data protection law across the EU.

The GDPR will apply from 25 May 2018, which means organisations have just over a year to prepare for its implementation.

If you haven't already, you should start preparing for compliance without delay as the obligations are onerous.

The headlines from the GDPR are that:

- data subjects (those whose data is being held) will have sweeping new rights;
- the Information Commissioner's Office (ICO), which is the UK's data protection regulator, will have the power to impose fines of up to 4% of turnover;
- GDPR will apply to all data processed in the EU – regardless of where the originating company is based;
- new rules will make it easier for data subjects to demonstrate that there has been a failure to comply with the GDPR;
- it is inevitable that data controllers (those who determine how and why data is processed – which includes most charities) will find the cost of compliance even higher than they do for the current system;
- self-reporting of breaches of data security will become mandatory.

Self-reporting

At present, data controllers are required to report breaches to the ICO if they are 'serious'. Under the GDPR, most data breaches will need to be notified to the ICO within 72 hours of the organisation becoming aware of the breach, where feasible. If this time frame is not met, reasonable justification will need to be provided to the ICO.

In some cases, data subjects affected by the breach will also need to be notified. It will not be necessary to notify the ICO if the breach is unlikely to result in a risk to the rights and freedoms of individuals. So, what does that mean? Well, as yet, we do not know. But, given that most data breaches concerning even basic personal information could lead to identity fraud, I can't help thinking that the threshold might not be very high at all.

It is essential that all possible measures are put in place to try and prevent a breach of data from occurring. But, if the worst does happen, then it is equally essential that the breach is handled properly, quickly and transparently.

Dealing with a reputational crisis – whatever its form

Overall, my 'top tip' is that a charity's response to a crisis must be *swift*, *decisive* and *convincing*.

Whilst caution should be used when issuing substantive press releases or statements, a swift recognition of the issue and a reassurance that everything is being put in place to resolve or investigate the matter, is very important.

The public and media expect an instant response, and will not react positively if the first thing a charity does is batten down the hatches. On the other hand, make sure you consider any legal implications of the press releases and statements that you want to make. A cohesive approach between your PR team and legal advisors can make all the difference.

Many charities will not have experienced a reputational crisis – and long may that continue! Even so, having a crisis response plan and team are essential. Nominating a team of people across your internal departments will allow you to co-ordinate a cohesive and consistent response to a crisis. These characteristics are essential if you wish to maintain as much public confidence and support as possible.

I leave you with the words of Bernard Jenkin MP (Chair of the Public Administration & Constitutional Affairs Committee): "The most important thing charity trustees are responsible for is the reputation of their charity, because without a reputation it is nothing".

Tony Jaffa
Partner, Foot Anstey

TO ERR IS HUMAN – IT PROJECT MANAGEMENT IN THE CHARITY SECTOR

Don't be fooled by the headlines – in the public and private sectors, most IT projects in charities succeed. However, the charity sector does have characteristics which can pose their own challenges. The devil is in the planning, says Bob Darby from Barnardo's.

Failure and IT seem to go together. Hardly a week goes by without some new revelation in the press of an almighty failure – typically related to an IT project. As a finance director who is simultaneously controlling the charity budget and overseeing IT, this may cause you some angst.

Let me share some reflections based on a long career at the sharp end of major programme/project delivery, in both the commercial and the charity sectors, together with some practical tips to calm you on your way.

Why IT projects fail

There is near universal agreement on the causes of IT project failures, with lots of top ten lists that can be consulted. Reading them you'll come across phrases like 'lack of business engagement and sponsorship', 'mission creep', and 'mismatch between project deliverables and business goals'. All very true, however do remember:

- most IT projects do succeed. We don't tend to shout about them because we work in finance and IT, not in marketing or fundraising;
- if it was easy to fix things so that 'we' did not keep making the same sort of mistakes then we would have done that ages ago – ergo, this is tricky;
- few failures are down to technology. The technology normally works just fine. Most IT projects fail due to what is called 'people' issues – the sheer human challenge of taking a disjointed mass of people on a journey from one way of doing something, to a new way of doing something that's a bit different.

Are charities unique?

Turning to our sector, I have detected two aspects of note. Firstly, there are some IT project problems that are fairly universal, however they seem to crop up with even more frequency in the charity sector. So if you were a betting person, this is where you would be putting your money. Secondly, there are some IT project problems that are not that common in the commercial sector, however they do seem to keep cropping up in this sector. These warrant further attention.

So, focusing specifically on the second group, let me suggest three reasons for IT project failure specifically in our sector, and then I'll provide some suggested solutions.

> **"Typically in our sector we squeeze change and business as usual together, usually by stretching our most capable staff even further."**

Problem #1 – Fear of failure

Fear of failure is a natural human trait. If you're running a project you don't want it to fail. I believe that the fear of failure is more acute in charities. Why? Well, if we fail we let down our beneficiaries, our supporters and donors. We are driven to go the extra mile, to not give up until we succeed, 'what about the poor children..?'. So you find that charity workers tend to hide failure – they don't want to own up.

Telltale signs are not stopping projects when the business case no longer stacks up; not wanting to declare a write-off; unreal or no project reporting.

In the commercial sector, you are a lot more ready to recognise that things get screwed up. You just move on from it, you expect a degree of failure.

Problem #2 – Managing change and business as usual at the same time

Let me start by letting you in on a secret, and you probably know this already – change is difficult. Change is not business as usual. The skill sets required, the approach to the task, the process to follow – all different.

Now, commercial organisations generally get this, and set up separate programmes/structures/organisations to 'do change'. Typically in our sector we don't do that. Rather we squeeze change and business as usual together, usually by stretching our most capable staff even further.

Telltale signs are the unwillingness to setup dedicated programs to drive through change; inadequate investment; not wishing to face up to the consequences of two groups of employees – the 'A' team doing the new exciting work and the 'B' team doing the old boring (soon to be defunct) work, and hopelessly unrealistic resource plans for the task.

Problem #3 – A surplus of niceness

Charities are made up of staff, volunteers, managers, directors and trustees that are (generally) too nice. Now you may be thinking 'you don't know my Board' however, bear with me – I appreciate it is a generalisation. I want to suggest that this niceness too often covers, not to put too fine a point on it, incompetence.

There are many reasons for this. We don't pay premium salaries to get the best talent. We attract the vocational, those who believe passionately in the cause, but don't necessarily have the required skills for the role. Because of low salaries, 'free' resource such as volunteers and attractive terms with suppliers, our turnover is often very significantly less than an equivalent commercial organisation of similar scale and complexity. In many charities you hear it said that 'it is much easier to get forgiveness than a decision'. Apply all this to IT projects and it's a recipe for disaster.

Telltale signs are: not taking management action soon enough; not firing incompetent people but giving then another chance; not making the tough calls; looking for compromise when so often that compromise significantly increases complexity of the resulting business processes or systems.

SECTION 11: IT AND DATA INSIGHT

So let's move on to looking at solutions – or at least some mitigations that if in place will go a long way to sorting this out.

Solution #1 – Methodology

This is by far the single most important thing that, if you have it in place, will keep you out of trouble. Having a method or process for projects, and sticking to it, is absolutely the best thing you can do.

It's okay to have more than one project methodology, as not all projects are the same; however think long and hard before having more than two. The methodology must be proportionate to the project in hand. Do train all staff in the methodology and build up familiarity. The methodology must be clearly articulated so all staff know how projects fit into the organisation.

There are some common features that you must ensure are present in your methodology:

- Planning before doing (more on this later);
- Frequent and routine reporting;
- Metrics, both qualitative and quantitative so you can validate results;
- An effective review mechanism that is routine and embedded into the project;
- Periodic major 'gate reviews' with appropriate expert engagement.

Once you have your methodology in place, stop any project interference, ringfence the work, stick to the process and don't muck around with it. It will see you home.

Solution #2 – Get the planning right

The plan for an IT project is like an architect's drawing for a new office. You know exactly what is going to be built and how it is going to come together. With no drawing, which means no planning, then you are making it up as you go along.

The trick here is to only let people who are actually good at planning do it, the rest are, in my opinion, a waste of time. When you find a good planner, recognise them and make them your 'go-to' person when you need a plan. A good planner looking at a Gantt chart with hundreds of tasks will see possibilities, opportunities for improvement, things which don't fit together, spot the errors and incongruities.

A good planner will:

- Plan only what is needed. The plan will be proportionate. You need detail for the immediate, but generally less so the further you ahead you look;
- Do sensible resource planning. I find that most people seem to ignore resource planning totally. The tasks all might look fine but what does the resource profile look like?;
- Re-plan when things change. They will do it rigorously as well.

Finally...

Most IT projects succeed. Where there is failure it is usually associated with the sheer human challenge of what is being attempted. There are reasons for IT project failures that are more prevalent in our sector, due to the very characteristics that make our sector unique. By recognising these factors, and taking steps to mitigate them, we can achieve the best of both worlds – successful projects that further the aims about which we are all so passionate.

Good luck, and may all your IT projects succeed!

Bob Darby
Director of Information Services, Barnardo's

12
USEFUL RESOURCES

IN THIS SECTION

- *Model job description: Finance Manager – Charity*
- *Model job description: Director of Resources*
- A checklist for company secretaries
- *Model Terms of Reference: Audit Committee*
- Example code of practice for Trustees
- *Model role description: Honorary Treasurer*
- *Model Terms of Reference: Finance Committee*
- Model terms of reference: Investment Committee
- Model internet and email usage guidelines

Please note that all of the resources in this section are available in the member's area of the CFG website as Word documents, which you can download and tailor to your needs.

MODEL JOB DESCRIPTION: FINANCE MANAGER

Reporting to:..

Direct reports:..

Purpose of role:..

Areas of responsibility:

- Preparation of the annual statutory accounts and management of the audit;
- Preparation and submission of relevant Charity Commission, Companies House and HMRC returns;
- Review and submission of quarterly VAT returns;
- Preparation and submission of Gift Aid claims as appropriate;
- Liaison with the payroll bureau and payment of monthly salaries;
- Review of monthly bank reconciliations and routine financial processes;
- Preparation of cash flow forecasts;
- Responsibility for effective treasure management;
- Responsibility for maintaining and updating the financial system to ensure maximum financial control;
- Responsibility for updating and maintaining all financial procedures to ensure maximum efficiency and control;
- Lead liaison with banks, auditors, HMRC, loan and grant making bodies;
- Preparation of ad hoc management reports as appropriate;
- Lead role on topical finance projects as appropriate;
- Ad hoc financial advice to staff and trustees as required.

Personal specification:

The candidate is required to have the following skills and experience:

- Fully qualified accountant;
- Charity financial and management accounting experience at finance manager level;
- Commercial accounting experience, ideally at manager level;
- Extensive VAT knowledge and experience;
- Extensive knowledge of relevant SORPs;
- Experience of producing Charity final accounts and managing an audit;
- Good verbal communication skills;
- Good report Microsoft Office skills, particularly in Excel;
- Familiarity with use of databases.

Additional desirable skills and experience are as follows:

- Writing skills;
- Familiarity with [name] accounting package [any other software used in the role];
- Experience of Gift Aid claims;
- Technical financial systems experience, including report writing;
- Payroll experience.

MODEL JOB DESCRIPTION: DIRECTOR OF RESOURCES

Direct reports:..

Reports to:...

Purpose of role:..

Responsibilities:

Corporate

- As a member of the executive team, contribute to the development and delivery of the organisational strategy;
- Working closely with our policy team, act as thought leader on specific areas of work for the organisation, attending meetings or speaking on our behalf as appropriate and promoting our work within the sector;
- Exemplify a continuing deep understanding of issues facing financial leaders in the charity sector;
- Build effective working relationships with stakeholders, from Trustees through to auditors to ensure that the organisation obtains maximum value from those relationships;
- Undertake the Company Secretary role for the organisation and any subsidiaries.

Financial Management and Internal Control

- Provide financial leadership to the senior team and together with the CEO to the Board of Trustees through the:
  - Development of a strategic financial agenda;
  - Use of plans and forecasting scenarios;
  - Provision of clear timely relevant management accounts and key historic data;
  - Provision of operationally relevant day to day financial data including cash flow;
  - Management of the annual planning, budgeting and reporting processes and timetables, including the annual review and preparation of three year financial projections aligned to achieving the organisation's strategic objectives;
  - Support and training to colleagues to ensure they have the confidence to proactively engage with the financial agenda and are empowered to contribute to the management of the finances of the organisation as a whole, and their team in particular.
- To ensure the organisation's approach to risk management is fit for purpose and to lead the regular review and reporting of risk and the development of a robust assurance framework.
- Ensure that proper effective accounting records and financial control systems are maintained and that all financial matters are dealt with in a proper and secure manner.
- To ensure that the organisation meets all its statutory financial and regulatory obligations, and that appropriate tax planning is undertaken (including Companies House, Charity Commission and HMRC).
- To ensure that satisfactory financial administration systems and procedures are in place and are properly documented and adhered to.
- To ensure that all income due is promptly collected and monies owed are paid in a prompt and efficient manner.
- To ensure that adequate insurance cover is put in place for the organisation's operations and activities.

IT

- To lead the development and implementation of the IT strategy, which will deliver the organisation's strategic and operational targets.
- Ensure the organisation has appropriate project and programme management processes to ensure all change initiatives meet their objectives.
- To champion knowledge management and the development of systems and processes to enable the more effective collection, collation, storage and dissemination of information across the organisation.

HR

- Working to ensure HR processes are appropriate, fit for purpose and legally compliant
- Overseeing and managing the processing of payroll and pension arrangements
- Supporting the CEO in ensuring the organisational development agenda supports the achievement of the organisation's objectives.

Team

- To foster a culture which supports organisational and individual learning
- Ensure staff are motivated, customer focussed, trained, and deliver against objectives.

CONTINUED...

- To be responsible for budgetary control and to regularly review the risks for the department

Other

- To undertake any other duties as required by the CEO or the Board

Person Specification

Technical, Qualifications & Experience

- Substantial senior experience in charity finance and strategic planning.
- Educated to a degree level with a professional accountancy qualification (desirable).
- Evidence of continued learning through achievement of additional qualifications.
- Experience of managing change.
- Experience of developing high performing teams.
- Up to date knowledge of accounting developments and areas of work which are relevant to the organisation's objectives.
- Experience of developing and maintaining an effective internal control and risk management environment.
- A successful track record of leading multi-disciplinary professional teams (IT, HR etc.)
- Strong motivational leadership skills with the ability to motivate others to achieve results.

MODEL ROLE DESCRIPTION: HONORARY TREASURER

The Overall Role

To monitor the financial administration of the charity and report to the board of trustees at regular intervals on its state of financial health, in line with best practice, and in compliance with the governing document and legal requirements to enable the board to better make strategic decisions.

The main responsibilities and duties of the Honorary Treasurer include:

- Overseeing and presenting budgets, internal management accounts and annual financial statements to the Board of Trustees;
- Leading in the Board's duty to ensure that proper accounting records are kept, financial resources are properly controlled, invested and economically spent, in line with good governance, legal and regulatory requirements;
- Leading in the development and implementation of financial reserves, cost-management and investment policies;
- Liaising, where applicable, with the appropriate member of staff responsible for the financial activities of the organisation;
- Chairing any finance committee in line with standing orders and terms of reference, and reporting back to the Board of Trustees;
- Monitoring and advising on the financial viability of the charity;
- Overseeing the implementation of, and monitoring, specific financial controls and adherence to systems;
- Advising on the financial implications of the charity's strategic plan;
- Overseeing the charity's financial risk-management process;
- Acting as a counter signatory on charity cheques and important applications to funders; and
- Board-level liaison with the external auditors on specific issues such as the Auditors' Management Letter and the related board representations.

The extent of these duties and the Treasurer's involvement will vary with the size and complexity of individual charities and the level of finance staff employed

Critical Areas of Involvement for t he Treasurer

Budgeting and strategic financial planning

The Treasurer must ensure that all strategic plans are fully financially appraised and that the budget is in line with the plan's short-term objectives as set for each year.

Management reporting

Trustees have a duty to ensure that proper accounting records are kept, assets are safeguarded and resources properly applied in accordance with the objects of the charity. The Treasurer should ensure that management accounts are prepared on a regular basis and that there is a target timescale for their production. The Treasurer should also agree with the trustees the type of financial reporting they require and the extent of it. This needs to be done in coordination with the Director of Finance (where present).

Statutory financial reporting

The Treasurer's task here is to guide and advise fellow Trustees in the Board's formal approval of the annual report and [audited] accounts. Therefore it is important the Treasurer is fully aware of their content, regardless of any involvement in their preparation.

Investment

The Treasurer needs to be closely involved in the overall management of this important asset. Many charities have investment sub-committees convening several times a year, where the Treasurer and other committee members are able to meet with the external investment advisers or managers to discuss targets, constraints, performance and future investment policy. The Treasurer may well have to chair the charity's investment committee.

Staff pension

Pensions legislation and regulation has greatly increased, and Treasurers need to be able to advise fellow Trustees on the financial intricacies and implications.

Risk Assessment and Risk Management

Treasurers need to ensure that the risk-management process is adequate and that the financial implications of risk are fully taken into account.

Audit

The Treasurer ensures there is a framework for accountability; for examining and reviewing all systems and methods of financial control, and ensures compliance with all aspects of the law, relevant regulations and good practice relating to finance. Where there is a separate Audit committee, Treasurers should be a member rather than chair to limit conflict.

CONTINUED...

Reserves policy

A final critical area is reserves policy in relation to any voluntary funding and/or to the charity's operational viability and ultimate solvency.
The Treasurer must be involved in:

- The development of any reserves policy and could well be its guardian on behalf of the Trustees;
- Keeping the Board regularly informed of the free reserves position and target (if any), even if only as part of the essential cash management reporting where solvency is an issue; and
- Advising any action needed to cope with changing circumstances.

The Treasurer and Governance

In larger charities it will be necessary to have a committee of the Trustee Board to deal in more detail with financial and perhaps investment, fundraising and operational management issues. In many cases the Treasurer will chair a finance or resources committee and report back on its work to the full Board. Some charities also find it necessary to have subcommittees of the finance committee to deal with pensions and investments. The Treasurer may also be involved in the remuneration committee. Whatever the structure for governance, the Treasurer needs to be happy that the arrangements are sound from a financial management point of view and that they provide full information to Trustees.

The Honorary Treasurer Relationships with the Executive

The Treasurer will also have important relationships with the executive, the most important of which is the relationship with the Director of Finance. The Treasurer will also have a more distant but nevertheless important relationship with the Chief Executive. Chief Executives should ensure that the main interface on financial matters is between the Treasurer and the Director of Finance. However, the Chief Executive and the Director of Finance should meet the Board's Chair and Treasurer occasionally to discuss major aspects of the strategy, operational activities and finances of the charity. Where possible, the Chief Executive and the Director of Finance should also attend finance committee meetings.

This resource was kindly donated by the Honorary Treasurers Forum and reproduced here with permission. A longer and more in-depth version can be downloaded from www.honorarytreasurers.org.uk.

The Honorary Treasurers Forum

A CHECKLIST FOR COMPANY SECRETARIES

The core duties of the company secretary are:

- Being the custodian of governing documents. This means not just holding a copy of the up-to-date documents (and past versions) but also understanding, interpreting and advising the Trustees on any contents;
- Attending and servicing Trustee and general meetings (and having overall responsibility for the servicing of committee meetings). This includes issuing notices, agenda and papers for meetings and being responsible for the taking of minutes. The secretary is responsible for the operation of the company's formal decision-making and reporting machinery;
- Having custody of registers; minute books; records. From 6 April 2016 all UK Companies are required to maintain a new register of people with significant control ("PSC register");
- Maintaining a Trustees' register of interests in order to monitor any conflicts of interests;
- Communications with members;
- Oversight of appointment processes for Trustees;
- Being responsible for statutory compliance (see below);
- Having custody of any seal and overseeing its use;
- Ensuring the charity's stationery, website, emails, invoices and other documents include all details required under company law, charity law and VAT legislation;
- Advising on governance matters;
- Trustee support, training and development;
- The provision of legal advice and advising on statutory requirements.

Statutory requirements

The company secretary must be aware of the obligations of the charity under both the Charities Acts and the Companies Act 2006. There are a number of changes now in place as a result of the Companies Act 2006. In some instances, for existing companies, their Articles will override the Act, but in other instances (e.g. in regard to proxy voting) the Act will prevail no matter what the Articles state. The Secretary must be aware of these requirements.

The secretary must also be aware of a range of other legislation. This will depend on the work of the charity, but is likely to include:

- The Equalities Act 2010;
- The Bribery Act 2012;
- The Company Directors Disqualification Act 1986;
- The Business Names Act, RSO 1990 and 1985 as modified by the Companies Act 2006;
- The Competition Act 1998 and Enterprise and Regulatory Reform Act 2013;
- Money Laundering Regulations 2014;
- Current pensions legislation including auto-enrolment;
- The Insolvency Act 1986 and Insolvency (Amendment) Rules 2010;
- The Criminal Justice Act 2003 and the Criminal Justice and Immigration Act 2008; and
- The Financial Services and Markets Act 2000.

Annual and event-driven compliance

During the year the company secretary must ensure the following:

- That an annual return and annual report and accounts are filed with the Charity Commission within ten months of the year-end.
- That the annual report and accounts are filed at Companies House within nine months of the year-end;

* *From 30 June 2016, instead of the annual return (AR01), companies will be asked to submit a confirmation statement to Companies House, confirming all their filings are up to date. Importantly, in the confirmation statement, companies will need to file details of their register of people with significant control (PSC register) with Companies House for the first time. These details will then appear on the public register. This also applies to CICs. Confirmation statements will be due in the same timeframe as annual returns were due;*

- From 30 June companies will also have the option of maintaining their statutory registers (e.g. members, directors, people with significant control) at Companies House;
- That the registers of members, directors (Trustees), directors' residential addresses, secretaries and charges are kept up-to-date; and
- That proper minutes are kept of meetings.

SECTION 12: USEFUL RESOURCES

CONTINUED...

Other event-driven obligations are:

- Change of registered office: notify Companies House within 15 days of changes;
- Passing of special resolutions: copies of resolutions are to be sent to Companies House within 15 days of being passed;
- Amendment of constitution. This must be filed with both the Charity Commission and Companies House. The filing at Companies must be within 15 days and the amendment does not take place until it is filed. The amendment of some part of the constitution will require Charity Commission consent before approving;
- In certain instances Charity Commission consent may need to be sought e.g. for payments to a Trustee if not allowable under the constitution;
- Forms AP01 – AP04 as applicable are to be sent to Companies House within two weeks of a director or secretary joining the company, or forms TM01/TM02 when resigning. Forms CH01 – CH04 are sent to record changes of particulars for a director or secretary;
- All charges on the company's property and assets must be recorded in the register of charges and Companies House notified within 21 days.

If the charity operates in Scotland and/or Northern Ireland the secretary may also be responsible for registering with the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland and meeting their regulations.

Ongoing Review

The company secretary must consider a number of matters as part of his or her oversight of the charity's affairs. For example:

(a) The constitution: review the constitution to ensure that the provisions are appropriate to the current operation of the charity;

(b) Good governance: review the processes for the appointment of Trustees; consider arrangements for Trustee induction and ongoing training; consider Board performance review and a skills analysis; review the governance structure; review the effectiveness of Board meetings and Board information systems. Bring to the attention of Trustees a number of publications published by the Charity Commission, and *Good Governance – A Code for the Voluntary Sector* (published by ACEVO, CTN, ICSA and NCVO) which is now being revised;

(c) Review conduct and probity matters, such as a code of conduct and conflicts of interests procedures;

(d) Ensure that Trustees of charitable companies are aware of the recent company law changes:

Ban on Corporate Directors – It will no longer be possible for companies to have corporate directors. From October 2016 all directors of a company must be natural persons. This does not affect ex–officio directors. Any appointment of a corporate director after this date will be void. Any existing corporate directors will cease to be directors one year after the changes take effect.

Keep an eye out as there are likely to be some exceptions.

Other legislation: consider compliance procedures in connection with, for example, lotteries legislation, and legal and tax implications of fundraising activities, including trading companies. Be aware that HMRC has published new model Gift Aid declarations, with a single donation form, multiple donation form and form for a sponsored event. *Charity fundraising: a guide to trustee duties (CC20)* is the Charity Commission's new guide to charity Trustees' responsibilities in the fundraising context;

(e) Contracts: review the procedure for entering into contracts and ensure ongoing compliance with terms and conditions of contracts;

(f) Property: review the procedures which are adopted when land or property is being acquired or sold or leased;

(g) Compliance with the Data Protection Act 1998;

(h) Safeguard the charity's intellectual property.

Prepared by Suresh Lalvani, chartered company secretary

MODEL TERMS OF REFERENCE: THE FINANCE COMMITTEE

Composition, Attendees, Quorum & Reporting

1 The Finance Committee is a Committee of the Board of Trustees ("the Board") and reports directly to the Board.

2 All members of the Committee are appointed by the Board.

3 The Committee shall consist of not less than three Trustees appointed by the Board in addition to the Chairperson. [note: the maximum number of members of the Committee as a whole will vary according to the size of your organisation and your needs]

4 The Committee shall consist of not less than three Trustees appointed by the Board in addition to the Chairperson. [Note: the maximum number of members of the Committee as a whole will vary according to the size of your organisation and your needs.]

5 The Committee may co-opt ex-officio members who in the opinion of the Committee will bring additional relevant skills to the Committee, but appointed members shall always form the majority.

6 The Chief Executive, Finance Director, H.R. Director and Head of Finance will normally be in attendance at all meetings.

7 The Head of Finance is the Secretary to Committee Meetings. Minutes of meetings will be reviewed by the Board of Trustees when approved by the Committee Chairperson.

8 Unless otherwise determined by the Committee, a quorum shall consist of two members of the Committee.

9 The Committee will not meet less than three times a year and additionally as may be necessary. Where possible, and without compromise to the balance of skills, the composition of the Committee should be such so as to achieve a reasonable balance in terms of gender, age and ethnicity.

10 The Chair of the Committee (or in his/her absence, another Trustee member of the Committee) shall report to the Board at the next Board meeting.

Responsibilities

Financial

1 To review the draft of the three year business plan and supporting financial plan and budget and make recommendations thereon to the Board of Trustees.

2 Regularly review performance against plan and budget.

3 Take responsibility on behalf of the Board for overseeing all financial aspects of Charity operations so as to ensure short and long term sustainability.

4 Approve, within limits agreed by the Board, expenditure of a significant nature on new initiatives.

5 Identify priorities for additional expenditure or for savings as actual income dictates.

6 Review longer term forecasts of income and expenditure and approve the form of presentation of financial information.

7 Propose options for timely actions to mitigate risks to satisfactory financial performance.

Investment

1 To agree and review the Charity's statement of Investment Principles.

2 To agree and review the Charity's investment policy, including the Charity's stance on ethical investments and social investments.

3 To agree and review the Charity's attitude to financial risk and the Charity's asset allocation strategy.

4 To review the performance of the Charity's portfolio of investments.

5 Consider changes to investment strategy and make appropriate recommendations to the Board.

6 To review the performance of the Charity's Investment Managers and to meet them formally at least once a year.

7 Report to the Board of Trustees.

Pensions

1 To monitor and review the Charity's Pension Schemes.

2 To recommend to the Board of Trustees appropriate actions following any scheme valuations, e.g. Triennial, FRS 102.

3 To approve the actuarial assumptions to be applied in the calculation of the scheme liabilities used in the FRS 102 valuations.

4 To review the performance of the Charity's Pension Fund Managers and to meet them formally at least once a year.

5 To review the asset allocation strategy for the Final Salary Scheme at least once a year.

6 To consider if there are any notifiable events under The Pensions Act 2014.

7 To report to the Board of Trustees.

With thanks to Fiona Condron, Director / Gatwick Business Assurance, BDO LLP for reviewing and updating these Terms of Reference.

MODEL TERMS OF REFERENCE: THE AUDIT COMMITTEE

Please note that some organisations will have a combined audit and risk committee, which will have a broader remit.

Composition, attendees, quorum & reporting

1 The Audit Committee is a Committee of the Board of Trustees ("the Board"), and reports directly to the Board. The Chairperson of the Committee is appointed by the Board. In addition to the Chairperson, the Committee comprises two or three other Trustees appointed by the Board as members. At least one member of the Committee shall have significant, recent and relevant financial experience. Other members of the Finance Committee are invited to attend the Audit Committee's meeting when the draft annual accounts are reviewed.

2 The Chief Executive, Finance Director and Internal Auditor will normally be in attendance at all meetings, with the external auditors as appropriate.

3 The Committee has the authority of the Board to have access to any information or employee of the Charity in the course of undertaking its responsibilities, and to obtain outside legal or other independent advice.

4 Until otherwise determined by the Committee, a quorum shall consist of three members of the Committee.

5 The Committee will have the power to co-opt external members as appropriate.

6 The Committee will continually review the training and development needs of Committee members. The Chair of the Committee will ensure there will be an induction programme for new Committee members.

7 The Committee will meet not less than twice a year and additionally as may be necessary.

8 The Internal Auditor [or Company Secretary etc, if there is no Internal Auditor] is the Secretary to Committee Meetings. Minutes of meetings will be reviewed by the Board of Trustees when approved by the Committee Chairperson.

9 The Chair of the Committee (or in his/her absence, another Trustee member of the Committee) shall report to the Board at the next Board meeting.

Responsibilities

General Objectives

1 On behalf of the Board it maintains an overview of the Charity's risk management and governance processes, ensuring that the system of internal control is satisfactory to deliver regulatory compliance.

2 Review the annual internal audit plan, ensure coordination between the internal and external auditors and ensure the internal audit function is adequately resourced.

3 Monitor and review periodically the effectiveness of Internal Audit by reviewing the progress reports, any major internal audit recommendations and any major findings of internal investigations and management's responsiveness to them.

4 Review reports from management and internal audit on the effectiveness of systems for internal control, financial reporting and risk management.

5 Consider management's recommendation for the appointment or dismissal of the head of internal audit.

Specific Responsibilities

1 To determine the frequency and process of tendering for the external audit service.

2 To consider the appointment, resignation or dismissal of the external auditors, to approve their fee annually, and to review their independence and objectivity and matters relating to the provision of non-audit services.

3 To formally review the performance of the external auditors every 3 years.

4 To discuss with the external auditor, before the audit commences, the nature and scope of the audit and to review the auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.

5 To review the annual financial statements in conjunction with the external auditors before submission to the Trustees, focusing particularly on the consistency of the Trustees' Report with the financial statements; and:

- The quality of control arrangements put in place over the preparation of the accounts by the Finance Director;
- Critical accounting policies and practices and any changes in them;
- Major judgemental areas;
- The extent to which the financial statements are effected by any unusual transactions in the year and how they are disclosed;
- The clarity of disclosures including those pertaining to fundraising activities;
- Significant adjustments resulting from the audit;
- Material misstatements detected by the auditors that individually or in aggregate have not been corrected, and management's explanations as to why they have not been adjusted;
- The ongoing concern assumption;
- Compliance with accounting standards and legal requirements;
- The charity's statement on internal control systems prior to endorsement by the Board and reviewing the policies and processes for identifying and assessing business risks and the management of those risks;
- The charity's identification and disclosure of the principle risks and uncertainties and the controls in place to manage them;
- To recommend the annual report and financial statements to the Board once satisfied.

6 To discuss any problems or reservations arising from the annual audit and any matters the auditors may wish to discuss. Each session includes a closed session (e.g. in the absence of management) to discuss any issues.

7 To consider the external auditors management letter (including any prior year recommendations which have not been satisfactorily addressed) and the Charity's management response, and ensure appropriate action is taken.

8 To review management's and the internal auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management.

9 To consider any necessary disclosure implications concerning material internal control aspects of any significant problems disclosed in the annual report and accounts.

10 To consider the disclosure about the role, responsibilities of, and actions taken by the Audit Committee included in the Annual Report.

11 To consider the appointment, resignation or dismissal of the internal auditor. To authorise the Internal Audit Charter, review the internal audit strategy and plan and monitor progress against the plan. To satisfy themselves on the appropriateness of the audit cycle, and that appropriate liaison is maintained between the internal and external audit functions.

12 To review all reports of the internal auditor and consider management responses to recommendations. To be the final arbiter in any case of dispute/disagreement.

13 To receive regular reports from the appropriate directors of progress with implementation of agreed internal audit recommendations and any other actions associated with internal control, and satisfy themselves that effective and timely management action has been taken.

14 To be advised of, consider and approve or otherwise any significant changes to the prime financial and management policies, control systems, and authority levels of the Charity.

15 To be advised of any instance discovered within the Charity, or affecting the Charity, of fraud or financial misdemeanour and obtain reassurance that satisfactory management action has been taken.

16 To ensure compliance with Delegated Authorisations whch should be monitored by the Treasurer

17 To review and approve the charity's whistleblowing policy and procedures, Serious Incident Reporting Policy and procedures and Fraud Policy and procedures.

18 To periodically review and update its own terms of reference, and submit them to the Board for approval. The internal auditor should produce a report, annually, to review the Audit Committee's performance against its terms of reference and best practice, which will be also be sent to the Board.

With thanks to Fiona Condron, Director / Gatwick Business Assurance, BDO LLP for reviewing and updating these Terms of Reference.

SECTION 12: USEFUL RESOURCES

MODEL TERMS OF REFERENCE: INVESTMENT COMMITTEE

Approved by the Board of Trustees on [dd/mm/yyyy].

Remit

1. Investment policy

The Committee is responsible for establishing a detailed investment policy, within the powers conferred under the charity's Articles of Association and relevant legislation and having regard to the charity's overall strategy and risk tolerance parameters.

2. Investment managers

The Committee is empowered to:

- Appoint investment managers and receive and consider reports of the investment managers' performance.
- Delegate the power to investment managers to buy and sell investments at their discretion, within the stated investment policy.

3. Loans to subsidiary companies

The Committee approves loan arrangements for the subsidiary companies and is responsible for ensuring that an adequate return, commensurate with the risk, is achieved.

It should be noted that the trading performance of the subsidiary companies is the responsibility of the respective boards of directors.

4. Properties

The Committee is responsible for ensuring, under all the circumstances, an appropriate return on the capital invested.

Non-operational properties

In terms of the development of surplus properties, the Committee reviews and approves recommendations for property disposals, in accordance with the procedure agreed by the Board of Trustees on [dd/mm/yyyy].

Operational properties

Operational responsibility for operational properties is delegated through the executive director of corporate services to the director of property and facilities management and the relevant department. Committee oversight is exercised by a visiting Trustee or independent committee member for property and facilities management.

Membership

The Committee consists of no fewer than three Trustees/independent committee members, to include the Trustee Board Chair and honorary Treasurer (ex officio) and at least one other Trustee/independent committee member with financial experience. The chief executive and executive director of corporate services are also ex officio members of this committee.

Note: this does not preclude a fourth Trustee joining the committee, but it will not be a requirement.

Appointment of members

Any member of the Board of Trustees or an independent person may be appointed to be a committee member by a decision of the Trustee Board.

Term of office

Membership is not time-limited.

In attendance

The director of property and facilities management and the director of finance attend for relevant items.

The investment fund managers are normally invited to attend the May and November meetings to review the performance of the investment portfolio and may be requested to attend other meetings as required.

Chair

The honorary Treasurer (ex officio) is Chair of the committee.

Quorum

The quorum for the committee is three, of whom two must be members of the Board of Trustees/independent committee members. For clarity, these may be ex officio or appointed.

Secretary

The company secretary (or his/her nominee) is secretary to the committee.

To meet

Investment committee shall normally meet four times a year.

Reporting

The investment committee will table minutes of its proceedings and recommendations to the Board of Trustees on a routine basis and will make an annual report to the Board of Trustees.

Evaluating performance

The committee will evaluate its own performance, both of individual members and collectively, on a regular basis.

Reviewing its role and responsibilities

The committee will keep under review its role and responsibilities and discuss any required changes with the Board of Trustees.

Prepared by Kevin Barnes, Chief Executive of Sisters of Nazareth Generalate, reviewed 2017.

SECTION 12: USEFUL RESOURCES

EXAMPLE CODE OF PRACTICE FOR TRUSTEES

Introduction

Those who serve on the Board of Trustees of [ORGANISATION NAME] have responsibilities both under Company Law as Directors and under Charity Law as Trustees. In addition, given our aims and objectives, we have a duty to provide a model of best practice. As part of this each Trustee is asked to agree to abide by the Code of Conduct which is set out in this document and to sign the following declaration accordingly.

Purpose of the Code

The Code aims to define the standards expected of [ORGANISATION NAME]'s Trustees in order to ensure that:

- The organisation is effective, open and accountable;
- The highest standards of integrity and stewardship are achieved; and
- The working relationship with the Chief Executive and other staff is productive and supportive.

Code of Conduct

1. Selflessness

Trustees have a general duty to act with probity and prudence in the best interest of [ORGANISATION NAME] as a whole. They should not act in order to gain financial or other material benefits for themselves, their family, their friends or the organisation they come from.

2. Integrity

[ORGANISATION NAME]'s Trustees should conduct themselves in a manner which does not damage or undermine the reputation of the organisation, or its staff. More specifically they:

- Should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their role;
- Must avoid actual impropriety and any appearance of improper behaviour;
- Should avoid accepting gifts and hospitality that might reasonably be thought to influence their judgement.

3. Objectivity

In carrying out their role, including making appointments, awarding contracts, recommending individuals for rewards and benefits or transacting other business, [ORGANISATION NAME]'s Trustees should ensure that decisions are made solely on merit. In arriving at decisions in areas where they do not have expertise themselves, Trustees should consider appropriate professional advice.

4. Accountability

[ORGANISATION NAME]'s Trustees:

- Have a duty to comply with constitutional and legal requirements and to adhere to best practice in such a way as to preserve confidence in [ORGANISATION NAME];
- Are accountable to the organisation's members/beneficiaries and other stakeholders for their decisions, the effectiveness of the Board and the performance of the organisation.

5. Openness

[ORGANISATION NAME]'s Trustees should ensure that confidential information and material, including material about individuals is handled in accordance with due care; so that it remains confidential. In addition they should be as open as possible about their decisions and the actions that they take. As far as possible they should give reasons for their decisions and restrict information only when the wider interest clearly demands.

6. Honesty

[ORGANISATION NAME]'s Trustees have a duty to avoid any conflict of interest so far as is reasonably practicable. In particular they must make known any interest in any matter under discussion which creates either a real danger of bias (that is, the interest affects him/her, or a member of his/her household more than the generality affected by the decision); or, which might reasonably cause others to think it could influence the decision, he/she should declare the nature of the interest and withdraw from the room, unless the remaining Trustees agree otherwise.

7. Leadership

[ORGANISATION NAME]'s Trustees must:

- Promote and support the principles of leadership by example;
- Strive to attend all meetings regularly, ensuring they prepare for them and contribute appropriately and effectively;
- Bring a fair and open-minded view to all discussions of the Board and should ensure that all decisions are made in the charity's best interests;
- Respect the role of the Chief Executive and other staff;
- Accept and respect the difference in roles between the Board, the Chief Executive and senior staff, ensuring that the honorary officers, the Board, the Chief Executive and his/her senior team work effectively and cohesively for the benefit of the organisation, and develop a mutually supportive relationship;
- Having given the Chief Executive delegated authority, be careful – individually and collectively – not to undermine it by word or action.

8. Trustee's Declaration

I declare that:

- I am age 18 or over at the date of this election or appointment.
- I am capable of managing and administering my own affairs.
- I am not an undischarged bankrupt nor have I made a composition or arrangement with, or granted a trust deed for, my creditors (ignore if discharged from such an arrangement).
- I have not been removed from the office of charity Trustee or Trustee for a charity by an Order made by the Charity Commissioners or the High Court on the grounds of any misconduct or mismanagement nor am I subject to an Order under section 7 of the Law Reform (Miscellaneous Provisions) (Scotland) Act 1990, preventing me from being concerned in the management or control of any relevant organisation or body, and I give my consent for [ORGANISATION NAME] to carry out checks against the Charity Commission's lists of removed or disqualified Trustees.
- I am not subject to a disqualification order under the Company Directors' Disqualification Act 1986 or to an Order made under section 429(b) of the Insolvency Act 1986.
- I have not been convicted of an offence involving deception or dishonesty (unless the conviction is spent).
- I undertake to fulfil my responsibilities and duties as a Trustee of [ORGANISATION NAME] in good faith and in accordance with the law and within [ORGANISATION NAME]'s objectives/mission.
- I do not have any financial interests in conflict with those of [ORGANISATION NAME] (either in person or through family or business connections) except those that I have formally notified in a conflict of interest statement. I have reviewed the list of all suppliers that do more than £5,000-worth of business with [ORGANISATION NAME] (as distributed to Trustees annually) and have notified the Board of any potential conflict of interest. I will specifically notify any such interest at any meeting where Trustees are required to make a decision that affects my personal interests, and I will, unless agreed otherwise, absent myself entirely from any decision on the matter and not vote on it.

I will abide by this Code of Practice for Trustees of the [ORGANISATION NAME].

Signed:

Date:

Name of Trustee:

MODEL INTERNET AND EMAIL USAGE POLICY AND GUIDELINES

1.Introduction

1.1 This policy sets out the obligations and expectations on employees of the [ORGANISATION NAME] including contractors and temporary staff, who use [ORGANISATION NAME]'s IT facilities for internet and email purposes. IT facilities are provided to assist with day-to-day work. It is important that they are used responsibly, are not abused, and that individuals understand the legal professional and ethical obligations that apply to them.

2. Authorisation

2.1 No person is allowed to use [ORGANISATION NAME]'s IT facilities who has not previously been authorised to do so. Unauthorised access to IT facilities is prohibited and may result in either disciplinary action or criminal prosecution.

3. Legislation

3.1 All users shall comply with the relevant legislation. This includes the following:

3.2.1 Data Protection Act 1998 / Freedom of Information Act 2000

Users need to be sure that they are not breaching any data protection when they write and send emails. This could include but is not limited to:

- Passing on personal information about an individual or third party without their consent.
- Keeping personal information longer than necessary.
- Sending personal information to a country outside the EEA.

Email should where possible be avoided when transmitting personal data about a third party. Any email containing personal information about an individual may be liable to disclosure to that individual under the Data Protection Act 1998. This includes comment and opinion, as well as factual information. Therefore this should be borne in mind when writing emails, and when keeping them.

3.2.2 *Computer Misuse Act 1990*

This Act makes it an offence to try and access any computer system for which authorisation has not been given.

3.2.3 *Copyright Design and Patents Act 1988*

Under this Act it is an offence to copy software without the permission of the owner of the copyright.

3.2.4 *Defamation Act 1996*

Under this Act it is an offence to publish untrue statements which adversely affect the reputation of a person or group of persons.

3.2.5 *Terrorism Act 2006*

This Act has makes it a criminal offence to encourage terrorism and/or disseminate terrorist publications.

3.2.6 *Telecommunications (Lawful Business Practice) (Interception of Communications) Regulations 2000.*

This allows for any organisation to monitor or record communications (telephone, internet, email, and fax) for defined business related purposes.

4. Responsibilities

4.1 All Users are expected to act in a manner that will not cause damage to IT facilities or disrupt IT services. Any accidental damage or disruption must be reported to a Line Manager as soon as possible after the incident has occurred. Users are responsible for any IT activity which is initiated under their username.

4.2 Use of the Internet

Use of the Internet by employees is encouraged where such use is consistent with their work and with the goals and objectives of [ORGANISATION NAME] in mind. Reasonable personal use is permissible subject to the following:

- Users must not participate in any online activities that are likely to bring [ORGANISATION NAME] into disrepute, create or transmit material that might be defamatory or incur liability on the part of [ORGANISATION NAME], or adversely impact on the image of [ORGANISATION NAME].
- Users must not visit, view or download any material from an internet site which contains illegal or inappropriate material. This includes, but is not limited to, pornography (including child pornography), obscene matter, and race hate material, messages condoning violence, criminal skills, terrorism, cults, gambling and illegal drugs.
- Users must not knowingly introduce any form of computer virus into [ORGANISATION NAME]'s computer network.
- Personal use of the internet must not cause an increase for significant resource demand, e.g. storage, capacity, speed or degrade system performance.
- Users must not "hack into" unauthorised areas.
- Users must not download commercial software or any copyrighted materials belonging to third parties, unless such downloads are covered or permitted under a commercial agreement or other such licence.
- Users must not use the internet for personal financial gain.
- Users must not use the internet for illegal or criminal activities, such as, but not limited to, software and music piracy, terrorism, fraud, or the sale of illegal drugs.
- Users must not use the internet to send offensive or harassing material to other users.
- Use of the internet for personal reasons (e.g. online banking, shopping, information surfing) must be limited, reasonable and done only during non-work time such as lunch-time.
- Use of gambling sites, is not permissible for personal use. Work-related use of social networking activities is acceptable, but should be used with discretion and towards the objectives of [ORGANISATION NAME], such as publicising the [ORGANISATION NAME]'s activities.
- Staff may face disciplinary action or other sanctions (see below) if they breach this policy and/or bring embarrassment on [ORGANISATION NAME] or bring it into disrepute.

4.3 Use of Email

Emails sent or received on the email system form part of the official records of [ORGANISATION NAME]; they are not private property. [ORGANISATION NAME] does not recognise any right of employees to impose restrictions on disclosure of emails within [ORGANISATION NAME]. Emails may be disclosed under the Freedom of Information Act, as part of legal proceedings (e.g. tribunals), and as part of disciplinary proceedings. Users are responsible for all actions relating to their email account/pc username and should therefore make every effort to ensure no other person has access to their account.

When using [ORGANISATION NAME]'s email, users must:

- Ensure they do not disrupt [ORGANISATION NAME]'s wider IT systems or cause an increase for significant resource demand in storage, capacity, speed or system performance e.g. by sending large attachment to a large number of internal recipients.
- Ensure they do not harm [ORGANISATION NAME]'s reputation, bring it into disrepute, incur liability on the part of [ORGANISATION NAME], or adversely impact on its image.
- Not seek to gain access to restricted areas of the network; this or other "hacking activities" is strictly forbidden.
- Not use email for the creation, retention or distribution of disruptive or offensive messages, images, materials or software that include offensive or abusive comments about ethnicity or nationality, gender, disabilities, age, sexual orientation, appearance, religious beliefs and practices, political beliefs or social background. Employees who receive emails with this content from other employees of [ORGANISATION NAME] should report the matter to their line manager or supervisor.
- Not send email messages that might reasonably be considered by recipients to be bullying, harassing, abusive, malicious, discriminatory, defamatory, and libellous or contain illegal or offensive material, or foul language.
- Not upload, download, use, retain, distribute, or disseminate any images, text, materials, or software which might reasonably be considered indecent, obscene, pornographic, or illegal.

Not engage in any activity that is likely to:

- Corrupt or destroy other users' data or disrupt the work of other users.
- Waste staff effort or [ORGANISATION NAME]'s resources, or engage in activities that serve to deny service to other users.
- Be outside of the scope of normal work-related duties – for example, unauthorised selling/advertising of goods and services.
- Affect or have the potential to affect the performance of, damage or overload [ORGANISATION NAME]'s system, network and/or external communications in any way.
- Be a breach of copyright or license provision with respect to both programmes and data, including intellectual property rights.
- Staff who receive improper email from individuals inside or outside [ORGANISATION NAME], should discuss the matter in the first instance with their line manager or supervisor.
- Personal use of [ORGANISATION NAME]'s email is not permitted.

5. Remote Users

5.1 Users may sometimes need to use [ORGANISATION NAME]'s equipment and access the [ORGANISATION NAME] network while working remotely, whether from home or while travelling. The standards set out in this document apply whether or not [ORGANISATION NAME] equipment and resources are being used.

SECTION 12: USEFUL RESOURCES

CONTINUED...

6. Monitoring

6.1 All resources of [ORGANISATION NAME], including computers, email, and voicemail are provided for legitimate use. If there are occasions where it is deemed necessary to examine data beyond that of the normal business activity of [ORGANISATION NAME] then, at any time and without prior notice, [ORGANISATION NAME] maintains the right to examine any systems and inspect and review all data recorded in those systems. This will be undertaken by authorised staff only. Any information stored on a computer, whether the information is contained on a hard drive, USB pen or in any other manner may be subject to scrutiny by [ORGANISATION NAME]. This examination helps ensure compliance with internal policies and the law. It supports the performance of internal investigations and assists in the management of information systems.

7. Penalties for Improper Use

7.1 *Withdrawal of facilities*

Users in breach of these regulations may have access to[ORGANISATION NAME]'s IT facilities restricted or withdrawn.

7.2 *Disciplinary Action*

Breaches of these regulations may be dealt with under the [ORGANISATION NAME]'s disciplinary procedures. It may lead to termination of employment from [ORGANISATION NAME].

7.3 *Breaches of the law*

Where appropriate, breaches of the law will be reported to the police.

13 CORPORATE PROFILES

IN THIS SECTION

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As part of one of the UK's leading charity recruiters, Harris Hill's Finance team focus exclusively on charity and not for profit finance roles.

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KEY CONTACTS:

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> **"We have looked after charities since our inception in 1986 and understand how to manage charitable investment assets in a prudent, pragmatic and flexible way."**

SERVICES: *Investment Management*

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