INSPIRING
FINANCIAL
LEADERSHIP

Charity Finance Group Handbook

THE PINK BOOK 2018

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CHARITY FINANCE GROUP

IN THIS SECTION

FOREWORD

It is our pleasure to welcome you to CFG's Pink Book 2018 – the first under the chairship of Nicki Deeson, International Finance Director for Amnesty International, and the first under our new leadership strategy.

During our respective conversations with members over the last year, the value and power of a network of progressive and curious professionals has been demonstrated time and time again.

We know that it isn't good enough to simply provide you with technical content and 'CPD points', rather our desire is to accompany you on your journey, driving forward social change through the lens of financial confidence.

The skills and experiences that you, our members and corporate partners, bring to organisations delivering public benefit – whether they are charities, social enterprises, CICs, mutuals (the list goes on) – is essential to making society function better. We believe that when organisations are financially confident they can dynamically respond to the challenges that life inevitably brings. When they can extract the maximum benefit from every pound given, or resource donated, then they command the trust of the population.

That requires inspiring financial leadership, and in the next year we will be focusing on three major strands;

- CFG walking the walk as well as talking the talk – ensuring that we share our own experiences of being a charity with you, including how we are tackling the risks and opportunities that we face – our common purpose with you.
- Ensuring that we bring finance skills to all leaders, whatever their discipline, and continue to build leadership skills in all levels of our finance professionals – truly putting finance at the heart of effective charities.
- Building CFG as the 'go-to' brand on all things finance, broadening our audiences and our influence evermore – making sure we support and lead social change agents to be effective and impactful.

WE'RE HERE TO SUPPORT YOUR EXPLORATION OF THE THORNY QUESTIONS, TO HELP YOU GROW AND DEVELOP AS CHARITY LEADERS

OUR DESIRE IS TO ACCOMPANY YOU ON YOUR JOURNEY, DRIVING FORWARD SOCIAL CHANGE THROUGH THE LENS OF FINANCIAL CONFIDENCE

We wish we could say that the wider economic and political environment had become less challenging and volatile over the recent past. Sadly, however, the political and economic uncertainty has increased exponentially both domestically and internationally. For our members, this has meant that you have continued to grapple with increasing demand for services and squeezed funding.

We're here to support your exploration of the thorny questions, to help you grow and develop as charity leaders – to be the very best versions of yourselves so that ultimately beneficiaries feel the difference. Our focus on putting financial skills at the heart of decision-making remains crucial. Charities are facing uncertainty that can only be overcome by boldly seizing opportunities.

Within this great publication you will find technically-geared content, suggested template documents and stimulating discussion pieces that will assist your endeavours throughout the year. Read it, pass it on and spread the word about the fabulous resources of CFG that are only possible with the help of all of you!

Thank you for being part of this vibrant network – we look forward to working together throughout 2018 and beyond. ■

Caron Bradshaw
Chief Executive Officer,
Charity Finance Group

Nicki Deeson
Chair,
Charity Finance Group

ARE YOU GETTING THE MOST FROM YOUR MEMBERSHIP?

Whatever the size of your organisation, being a member of CFG supports you and your colleagues in developing better financial management – across the whole organisation. Our members' needs are important to us and we want to ensure you are maximising the value of being a member. Here we share a few highlights of what we do.

As a CFG member, you are part of a network of 1,430 charities with one common objective – to put financial management at the front and centre of effective charity leadership.

Policy Achievements in 2017

Charity Finance Group had a packed policy year in 2017. Members' feedback into the Charities SORP consultation prevented the SORP becoming longer and more complicated. We also managed to secure changes to the National Risk Assessment to reduce the risk rating for charities for banks and other financial service providers. This was alongside continued engagement on a range of key issues on charity tax and regulation.

WHAT DO YOU GET AS A MEMBER?

DISCOUNTS AND SAVINGS

EVENTS

Come along to a wide range of events, conferences and training programmes ran by CFG and key partners, with a host of high profile speakers offering expert insight on issues and topics impacting the sector. Past speakers include Sacha Romanovitch, CEO of Grant Thornton; Fabian Picardo QC MP, Chief Minister, HM Government of Gibraltar and Jonathan Dimbleby. They're also a good opportunity to meet peers and can support you and your colleagues' CPD.

Discover CFG's full events programme on our website – you can book quickly and easily with your member login – **www.cfg.org.uk/events**

RECRUITMENT SAVINGS

Save up to £1.5k on recruitment advertising through the CFG/ Third Sector Jobs Board partnership.

FREE AND UNLIMITED

NETWORKING

Meet your peers and develop your skills and knowledge on topics affecting the industry in our regular members' meetings.

EXTEND YOUR MEMBERSHIP

Your whole organisation can benefit as you're free to add as many of your colleagues to your membership as you would like. They don't just have to be financial professionals – our members include IT and HR teams, CEOs and trustees. If you would like to add someone, just email **membership@cfg.org.uk**.

FREE AND UNLIMITED

TRUSTEE RECRUITMENT

We offer free advertising for trustee and treasurer roles through our partnership with Third Sector Jobs.

SPECIALIST GROUPS

Join over 600 members as a part of our four special interest groups: Large Charities, Grant-making organisations, Overseas Charities and Community Accountants.

EXPERT ADVICE

Access CFG's helplines run by our corporate supporters, offering members free advice on:

- Accountancy and Tax
- Legal: General advice
- Legal: HR and Employment
- Managing Financial Difficulties
- Pensions
- Property
- Treasury

DIGITAL NETWORKING

If you are struggling to find time in your diary for professional development, join CFG's digital community. We have a dedicated LinkedIn group for members and our Special Interest Groups. Follow us on LinkedIn and Twitter @CFGtweets.

POLICY CONSULTATIONS AND FORUMS

CFG's policy team tackle 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.

The Banking Forum, Technical Account Forum and Pensions Forum are a few examples of forums ran by CFG – focused on specific operational or policy issues, CFG membership offers you the opportunity to influence debate.

PUBLICATIONS, GUIDANCE AND SURVEYS

Access to a huge range of valuable resources, survey findings and publications. Our most recent publications include *General Data Protection Regulation: A Guide for Charities, Essential Charity Finance for Trustees* and *Navigating the Charity Pensions Maze*. We publish in partnership with our corporate partners and electronic copies are sent to members on publication.

There's also access available to CFG's extensive online library, as well as our monthly magazine, Finance Focus; Economic Outlook Briefings and of course The Pink Book.

WE WANT TO KNOW WHAT YOU THINK!

We are constantly striving to develop what we do for your membership and ensure our members are maximising the opportunities. Your ideas, feedback and suggestions are always important to us – drop the membership team an email at **membership@cfg.org.uk** or call us on **020 7871 5467**.

SPEAK UP…

Would you like to be a speaker at a CFG event? A whole host of members take part in our extensive events programme, engaging in valuable and insightful discussions with our members, over a huge range of topics. Whether you're a first-time speaker or a regular, we want to hear from you. Contact **events@cfg.org.uk**.

SECTION 1: CHARITY FINANCE GROUP

CFG'S CORPORATE MEMBERS

Charity Finance Group is big on networks, bringing together a range of experts across the corporate and not-for-profit sectors to share knowledge and experience. CFG's Dawn McNish on how this synergy delivers benefits for both charity and corporate members.

Our corporate members include accountancy firms, lawyers, banks, investment advisors, HR firms, insurance brokers, various consultants and IT and software professionals. It is thanks to their expertise and support that we can offer charity members unrivalled insight, guidance and competitive pricing for events.

Support from our corporate members is invaluable. Without it we would be unable to deliver the training, events, content and access to sector experts that our charity members need and depend on.

We want to extend our thanks to our 130+ corporate partners who have supported us over the years, and to welcome our new members, for providing us with:

- speakers for our meetings and conferences;
- content for our publications;
- the delivery of a wide range of training courses;
- venues for our events;
- sponsorship of our events, which allows us to offer low rates for delegates;
- articles and advertising for Finance Focus, CFG's monthly magazine;
- resources for hosting members' meetings and seminars;
- exhibitions at conferences to showcase professional support and services to member charities;
- sponsorship and table hosting at our annual fundraising dinner;
- free helplines for our charity members.

Our corporate members cover a wide range of areas and expertise, which ensures that the needs of our members are met. Their combined skills and expertise make a hugely significant contribution to our work.

CFG cannot endorse any of its corporate members. Instead, we aim to provide our members with the necessary 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 to contact is.

As a CFG corporate member, you will access various benefits including networking opportunities with our large charity membership through our meetings, conferences, events and social media platforms. Our corporate members 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, please call me on 020 7871 5479 or email me: ***dawn.mcnish@cfg.org.uk***

Dawn McNish
Director of Business Development and Events, Charity Finance Group

LIST OF CFG'S CORPORATE MEMBERS

Accounting & Tax Advisors

Barber Harrison & Platt
Jane Marshall

BDO LLP
Don Bawtree

Beever and Struthers
Victoria Lloyd

Begbies
Katherine Dee

Buzzacott
Samantha Bisson

Crowe Clarke Whitehill
Naziar Hashemi

Deloitte
Reza Motazedi

Goodman Jones
Julian Flitter

Grant Thornton UK LLP
Carol Rudge

haysmacintyre
Richard Weaver

Kingston Smith
Neil Finlayson

KPMG
Tara Dempsey

Mazars
Nicola Wakefield

MHA MacIntyre Hudson
Sally Knight

Moore Stephens
Nick Simkins

PKF Littlejohn
Alastair Duke

Price Bailey
Helena Wilkinson

RSM
Nick Sladden

Saffery Champness LLP
Liz Hazell

Sayer Vincent
Helen Elliott

Scrutton Bland
Elizabeth O'Hanlon

Smith & Williamson Ltd
Julie Mutton

SOC VAT Consultants Ltd
Socrates Socratous

UHY Hacker Young LLP
Subarna Banerjee

Wilkins Kennedy
John Howard

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Akoni Hub
Stephen Harvey

Barclays Corporate
Kosar Mumtaz-Zahid

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Charity Bank
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HSBC UK
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INTL FCStone Ltd
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Lloyds Bank PLC
Sarah Baker

NatWest Corporate Banking Services
Hugh Biddell

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Triodos Bank
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Unity Trust Bank PLC
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VFX Financial PLC
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Virgin Money Giving
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Consultancy

Adapta Consulting
David Membrey

Asset Risk
Vicky Rooke

Auditel
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Kevin Miller

Enhance Group (UK) Ltd
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Expense Reduction Analysts
Nick Robinson

Gerrard Financial Consulting Limited
Jen Gerrard

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Total Enterprise Solutions
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HR & Recruitment

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HSF Health Plan Ltd
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The HR Services Partnership Ltd
Maria Aguilar

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Rob Hayter

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Access UK LTD
Amber Hayward

Advanced Business Software and Solutions
Grahame Marsden

Bottomline Technologies PLC
Jacquie Powell

Lake Financial Systems
Macy Nettleton

Oracle NetSuite
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PS Financials Ltd
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Sapphire Systems Plc
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Unit4 Business Software Limited
Helen Crisostomo

Yoti
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Insurance

Access Insurance
Simon Hickman

Bluefin
John Setterfield

Bridge Insurance
Jonathan Starkey

D E Ford Insurance Brokers
Craig Walton

Ecclesiastical Insurance
David Britton

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Hettle Andrews & Associates Limited
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Investec Wealth & Investment
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James Hambro & Partners
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Newton Investment Management
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Alice Watson

Rathbone Investment Management
Francesca Monti

Rothschild Wealth Management
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Diversified Property Fund for Charities
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UBS Wealth Management
Helen Mcdonald

Vanguard Asset Management Limited
James Rogers

Waverton Investment Management
Emma Robertson

Lawyers & Tax

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Michael Scott

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Ian Hempseed

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Chris Knight

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Moira Protani

Mills & Reeve
Neil Burton

Russell Cooke
Andrew Studd

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Wrigleys
Malcolm Lynch

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Elspeth McKinnon

JLT Employee Benefits
Rob Cooper

Lane Clark & Peacock LLP
Richard Soldan

Punter Southall Limited
Mary McGrath

Quantum Advisory
Rhidian Williams

Secondsight Employee Benefits
Ian Bird

Spence & Partners
David Davison

Stephenson Harwood
Philip Goodchild

Property/Facilities

Diversity Travel
Christopher Airey

Publisher/Membership

Wilmington Business Intelligence
Rachael Hampton

Other

Alliance Asset Management
Neville James

LIST OF CFG'S CORPORATE MEMBERS

In alphabetical order:

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Simon Hickman

Access UK LTD
Amber Hayward

Adapta Consulting
David Membrey

Advanced Business Software and Solutions
Grahame Marsden

Akoni Hub
Stephen Harvey

Allen Lane
Beth Young

ALLIA
Phil Caroe

Alliance Asset Management
Neville James

Amundi Asset Management
Thomas Pietri

Asset Risk
Vicky Rooke

Auditel
Gillian Gibbon

Barber Harrison & Platt
Jane Marshall

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Bottomline Technologies PLC
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Bridge Insurance
Jonathan Starkey

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Kevin Addison

Buzzacott
Samantha Bisson

Cazenove Charities
Joanna Dunn

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Michael Scott

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Dan Heffernan

Foot Anstey
James Evans

Gallagher
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Jen Gerrard

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Wayne Hawkes

Goodman Jones
Julian Flitter

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Carol Rudge

Harris Hill
Darryl Ramsay

Hays Senior Finance
Michael Harvey

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Richard Weaver

Hempsons
Ian Hempseed

Hettle Andrews & Associates Limited
Richard Scott

Hewitsons LLP
Chris Knight

HSBC UK
Raj Shah

HSF Health Plan Ltd
Lee André

IBB Solicitors
Moira Protani

INTL FCStone Ltd
Fionn O'Brien

Investec Wealth & Investment
Caroline Jarvis

James Hambro & Partners
Fiona Matson

JLT Employee Benefits
Rob Cooper

JP Morgan International Bank
Jason Lobo

Kingston Smith
Neil Finlayson

KPMG
Tara Dempsey

Lake Financial Systems
Macy Nettleton

Lane Clark & Peacock LLP
Richard Soldan

Lloyds Bank PLC
Sarah Baker

Mazars
Nicola Wakefield

MHA MacIntyre Hudson
Sally Knight

Michael Page UK Ltd
Victoria Ward

Mills & Reeve
Neil Burton

Moore Stephens
Nick Simkins

Morgan Law
Lara Knights

NatWest Corporate Banking Services
Hugh Biddell

Newton Investment Management
Stephanie Gore

Novo-K Ltd
Kavita Cooper

Oracle NetSuite
Liz Weir

PKF Littlejohn
Alastair Duke

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Helena Wilkinson

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Punter Southall Limited
Mary McGrath

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Rhidian Williams

Quilter Cheviot
Alice Watson

Rathbone Investment Management
Francesca Monti

Rothschild Wealth Management
Nandu Patel

RSM
Nick Sladden

Russell Cooke
Andrew Studd

Saffery Champness LLP
Liz Hazell

Santander
Lianne Smith

Sapphire Systems Plc
Nick Williams

Sarasin & Partners
John Handford

Saunderson House
Claire Harlow

Sayer Vincent
Helen Elliott

Scrutton Bland
Elizabeth O'Hanlon

Secondsight Employee Benefits
Ian Bird

SEI Investment Ltd
Pradeep Kachhala

Smith & Williamson Investment Management
Sharon Hanshaw

Smith & Williamson Ltd
Julie Mutton

SOC VAT Consultants Ltd
Socrates Socratous

Social Finance Ltd
Charlie Pushman

Spence & Partners
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Standard Life Wealth
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Stephenson Harwood
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Total Enterprise Solutions
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TPP Not for Profit
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Waverton Investment Management
Emma Robertson

Wilkins Kennedy
John Howard

Wilmington Business Intelligence
Rachael Hampton

Wilsons Solicitors
Vicky Salter

Wrigleys
Malcolm Lynch

WRS Insurance Brokers Limited
Christopher Chapman

Yoti
Chris White

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 January 2018. Further details are available online on the CFG website: **cfg.org.uk/ourtrustees**

Nikki Deeson ACA (Chair)
International Finance Director, Amnesty

Gary Forster
Former Chief Executive, Transaid

Samantha Husband
Director of Finance, North Devon Hospice

Brigid Janssen (Deputy Chair)
Principle Consultant, CounterCurrent Communications

Liz Fosbury
Chief Operating Officer, National Theatre

Arati Patel
Director of Finance and Operations, Barts Charity

John Tranter (Treasurer)
Director of Resources, Independent Age

Simon Hopkins
Chief Executive Officer, Turn2us

Kerry Shea
Finance Director, Everybody Sport and Recreation

02

WHAT'S IN STORE FOR 2018?

IN THIS SECTION

VALUE CREATION

As the sector is increasingly dealing with public awareness issues, more than ever it is essential to be vigilant in our risk management. But not only should we focus on reputation and value protection, we should manage our risks so that we are taking the right risks and creating even more value and reward for our stakeholders.

There is heightened public awareness about good governance, appropriate behaviour and culture, coupled with the need for transparency and accountability. It is apparent that the highest standards of governance and stewardship are expected from charities and this is right, but this should not lead to a stifling of important charity endeavour.

Today, problems arise quickly, often with devastating impact. Intangible assets such as the organisation's reputation, brand, relationship with supporters, the quality and commitment of staff, credibility and trust in the organisation's culture and behaviour, are increasingly driving the creation of value. While such assets can be difficult to measure, boards and management can at least make certain they understand the issues and risks that could compromise them, and that the organisation has in place the processes and controls to manage these risks.

At the same time, there is concern that in the desire to avoid controversy and censure, boards may focus on avoiding risks. In fact, successful organisations do not avoid risk – they understand and manage risk, recognising that missing opportunities can be an even bigger risk. Successful organisations scrutinise all relevant opportunities and recognise the need to take risks. They are not risk-averse, nor do they necessarily have to take greater risks, but they have a better understanding of what the risks are and how best to manage them. That means, fewer control failures and an increased likelihood of achieving objectives and improved stakeholder value. Supporters and funders may be indifferent about specific risk management models or methods, but it will enhance their support for an organisation if it is able to demonstrate it does a good job of managing its risks to create value.

Unprecedented recent events have developed a new awareness of the importance of remote operations that 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 current environment?

There is greater recognition that probability has less value for risks that occur outside the norm. This means that approaches will have to be incorporated to deal with a new climate and new challenges.

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.

In such instances, the concept of vulnerability and risk interaction should assume prominence in both the risk assessment and risk management processes. If an organisation is vulnerable to a risk that is both relevant and has extremely high impact, it should be addressed, regardless of 'remote' likelihood. However, 'addressed,' in this context, is not necessarily the same as 'mitigated'. A balance needs to be attained and vulnerability should be weighed alongside probability. Non-profits are invariably resource constrained and risks and rewards will need to be considered. Furthermore, the board will need to establish its risk appetite and the risk tolerance that it is ready to accept.

In doing so, it is important to recognise that sometimes improbable events do occur with devastating effect, while other times probable events fail to materialise.

A focus on high impact risk is important, but one should not forget how a lower significance risk can escalate to very high impact risk, because of risk interdependencies. An isolated concentration on the value of a particular risk can sometimes result in not spotting 'risk contagion' – where one low impact risk leads to another and another, so that the cumulative impact is catastrophic. Many studies have shown that most failures are the result of a series of small, linked events rather than a single large event. If organisations only look at the big risks, they can often end up lethally ill-prepared to face the interaction of separate adverse events.

Recognising that probability has less value for risks that occur outside the norm and that the past is not the best indicator of the future and also that small risks can lead to larger ones, can create tensions and stifle innovation. 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. Understanding risk appetite and the risk resilience of the organisation in terms of reserves, competencies, and other resources is important. Management should be clear about the risks that can and should be taken and the ones that need to be avoided.

Traditional risk management, considering what could go wrong, is still relevant and these risks can't be ignored, but the primary incentive for tackling them is value protection. Other risks are all about upside, for example, introducing new innovations in service delivery or expanding into new areas of income generation. The primary impetus for taking these rewarded risks is value creation. Although they might have a significant downside, the potential upside is even greater. This distinction between rewarded and unrewarded risks seems simple, but it's amazing how often organisations fail to recognise the difference. In my experience risk management often falls within the remit of the individuals who are usually naturally cautious and therefore in the past many charities have tended to focus on unrewarded value protection risks.

VALUE PROTECTION RISKS ARE IMPORTANT, BUT THE RISK IS THAT INDIVIDUALS FOCUS THE BULK OF THEIR ATTENTION ON THE THREATS AND WIND UP MISSING OUT ON THE OPPORTUNITIES – THE FOCUS SHOULD SHIFT TO VALUE CREATION.

Value protection risks are important, but the risk is that individuals focus the bulk of their attention on the threats and wind up missing out on the opportunities – the focus should shift to value creation. Focusing only on downside can lead to underinvestment in the kinds of opportunities that drive growth and create value for stakeholders. Risk-intelligent organisations understand the distinction between rewarded and unrewarded risks, and they respond accordingly.

There is widespread recognition of the need to ensure there is an appropriate risk management environment. This includes the establishment of clear policies, codes of practice and clearly defined lines of responsibility and delegation of authority. At the same time, the rules should not create unnecessary bureaucracies or stifle initiatives. Moreover, polices and rules are not enough, and without the right culture and behaviour they will do little more than provide false comfort.

There are many new paradigms and it has become self-evident that plans for future development will have to take into account not only all of these factors, but also a very different environment from that of the past.

The coming years will be challenging, exciting ones for charities, as they continue to respond to the changing external and internal environment.

Organisations that will flourish will be those that cope with the uncertainties and make good, lasting decisions. There is progress, but the job is a long way from being finished. The task of setting priorities will remain as difficult as ever, matching the demands to satisfy short term needs, against pressure for the resources required to achieve long-term solutions.

Pesh Framjee is Global Head of Non Profits at Crowe Clark Whitehill, the UK member firm of Crowe Horwath International.

Pesh Framjee,
Global Head of Non Profits,
Crowe Clark Whitehill

AMPLIFYING THE VOICE OF CHARITIES IN 2018

With Brexit dominating, 2018 is going to be an interesting year! It's vital that charities make themselves heard says Andrew O'Brien. Here he walks through the most important issues on our radar, and explains why they should also be on yours.

2017 was a busy year for the CFG Policy team and the next 12 months will see the continuation of many themes from last year.

Brexit

Brexit is going to be a topic of conversation as the government's negotiation time quickly runs out and it has to start making hard choices about what type of deal it wants to strike with the European Union. As CFG outlined last year, despite criticism from some quarters, there are potential opportunities when it comes to Brexit. VAT reform, reform to State Aid rules and improved public procurement rules could help the charity sector. If you are a glass-half-empty person, you would argue that we'll need these benefits to outweigh the negatives of Brexit. If you are a glass-half-full person, you would argue that getting these advantages was the whole point of leaving the European Union. CFG will continue to reach out to all sides of the debate so that the needs of charities are considered within any Brexit deal.

A key moment in Brexit over the next year will be the introduction of the government's Immigration Bill. The Migration Advisory Committee has been asking for evidence to advise the government on what the future system should look like. Charities employ around 30,000 staff from the EU and 18,000 of these staff members are working in London. While it may seem like an issue unique to London, ultimately these charities will need to hire their staff from the rest of the UK.

This will place more competition on salaries and could create a sucking effect on the rest of the sector workforce. This does assume that the government goes ahead with its current proposals to significantly reduce migration from the rest of the EU. In our consultation with members we have heard the need for a much more liberal migration system to be established, and this is what we'll be presenting to Ministers over the coming months.

Apprenticeship Levy

Skills policy is also due for a change in April, with the introduction of a transfers system for Apprenticeship Levy funds. The Levy up until now has only impacted the largest charities, but from April employers will be able to transfer 10% of their Levy funds to other employers (including charities) to pay for apprenticeships.

Many charity employers are treating this system as a tax, so we want to make sure that as many charities as possible use the transfers to support skills creation in other parts of the sector. There may also be opportunities for charities that need skills funding to approach larger corporate supporters to see if they can access their Levy funds. We will also continue to lobby ministers to give charities more flexibility on how they spend their funds and transfers, particularly given the sharp fall in apprenticeship starts that has taken place since the introduction of the Levy.

Charging for the Charity Commission

One topic where hopefully we'll see a final settlement is the issue of funding for the Charity Commission. For several years now the Charity Commission has been proposing to introduce charging. These proposals have not gathered much support in the sector, despite regular interventions by the former Chair, William Shawcross. However, the government has now given the Commission £5m in additional funding under the proviso that a consultation on charging is undertaken. This would indicate that we are finally at the point where a decision may be taken. At the time of writing it is not clear whether 'no' is an option, but the research that CFG has undertaken indicates that there are significant risks with charging charities for their own regulation.

Charging could undermine the Commission's independence and although the regulator only wants to charge for certain items today, it could expand into charities paying for the whole regulator further down the line.

ONE TOPIC WHERE HOPEFULLY WE'LL SEE A FINAL SETTLEMENT IS THE ISSUE OF FUNDING FOR THE CHARITY COMMISSION

Tackling fraud

Fraud is an issue which will continue to be a focus for CFG. In our 30th year, we launched our Counter Fraud Pledge which has now been taken by over 100 charities. Evidence suggests that taking active counter-fraud measures can generate savings of 40% within 12 months. Given the evidence which suggests that charities are losing 2-3% of their expenditure through fraud, the savings could be significant. Insider fraud is a risk which the sector is not dealing with effectively. We will be engaging more with regulators and law enforcement agencies to ensure that charities are better protected.

Bank de-risking

Last year we made good progress on banking issues facing the sector through the National Risk Assessment which saw charities reduced from 'medium-high' risk to 'low' risk. We hope that this will lead to charities seeing reductions in due diligence from banks which has increased significantly over recent years.

This won't happen without effort and we will be engaging both with the banks and government to ensure that these fine words are backed up with real change.

Pensions

Finally, it wouldn't be a CFG policy round-up without mentioning pensions! Last year, after a great deal of effort by many former colleagues and partners of CFG, the government produced draft guidance on pension regulations for multi-employer schemes. This could help make it easier for charities to manage these significant liabilities and help to make the sector more financially sustainable. Although Brexit is taking up a lot of government time, we are going to pushing for these regulations to be put into practice, so that charities can start to get on top of their pension debts.

Other issues will no doubt emerge over the year but we will continue to monitor the situation closely and stand up for charities where their interests need championing. Let's hope we can keep up the positive momentum from 2017 into 2018! ■

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

SECTION 2: WHAT'S IN STORE FOR 2018?

WHAT'S ON THE HORIZON FOR SMALL CHARITIES IN 2018

The requirement to do more with less – increased demand for services coupled with reduced funding – is common to the sector as a whole. While this could be the perfect storm for small charities, the very characteristic that unites them also gives them the advantage of being agile, allowing them not only to survive, but also to thrive, says Mandy Johnson.

As we look to the future it is inevitable that we reflect upon the recent past. 2017 was another challenging year for many small charities. Whilst the charity sector as a whole continues to grow financially, this has mostly benefitted the largest 3% of charities that turnover more than £1million. Whilst the minority grows, the majority of the sector has seen an overall drop in income with the smallest charities being hit the hardest.

Charities are finding it tough

At the same time, demand for the services provided by small charities is increasing, as is the complexity of the issues that small charities have to deal with. It is therefore unsurprising that a third of small charities are starting to dip into their reserves and 21% are doubtful as to whether or not they will survive the next five years. We are being asked to do more with less.

I spend my time travelling the country talking to, and meeting with, small charities. It has been eye-opening hearing how the macro statistics above are playing out in reality for people on the frontline.

Small and agile charities are thriving

It is encouraging to see how people who are driven by a passion for what they do, or those they serve, can keep delivering vital services despite the adverse environments they are operating within. I have seen small charities that are thriving despite the challenges presented to them by the outside world. The nature of their size has meant they have adapted quickly as things have changed. I predict yet more turmoil in the year ahead. To be able to succeed in a continuously demanding climate, it is important that we learn from those small charities able to remain strong in a challenging environment.

We will still be asked to do more with less

Many of the small charities I have met tell me they have scaled back as much as possible to deliver services in a very tough economic climate. It is hard to imagine that even more can be achieved with less. Nonetheless, I predict that we will see further pushes from funders, and expectations from donors, to make such adjustments. I also believe that some will make this a reality through a strategic adoption of technology.

We need to develop an understanding of how technology can help

When I was at university I spent some time shadowing a solicitor who recorded letters onto a Dictaphone for a secretary to type up later. This sounds old fashioned today, but at the time, it was a modern breakthrough; technology enabled letters to be drafted without having to disturb a secretary from other work.

Technology is evolving even further so that the solicitor could now speak to a computer directly and a letter would be transcribed in real time without need for further human effort.

For some of us replacing people with computers may sound scary. Yet the charities that I have seen thriving are discovering how technology can free up their staff and volunteers to do the things that humans do best: love, care and build relationships with others. Over the next few years, the charities that embrace the opportunities presented through automation and other time-saving technologies may find they are able to do more with less.

Communication styles are changing

In 2018 there will be increasing pressures on charities to communicate as much, and as openly, as possible. It used to be enough to have a quarterly newsletter and an informative annual report from the board. If something went wrong, it would be reported to the Charity Commission and all checks and balances would be documented. These were the indicators of a well-run, transparent organisation that was good at communicating and complemented the way that the general public communicated with each other.

When I was younger, my family wrote an annual newsletter to distant friends and family members, we sent the occasional postcard from holiday and a thank-you letter for our birthday presents. It is how we kept in touch. Yet a few decades later, it is hard to know what to write in our family newsletter as so much of it has been shared online throughout the year. When I meet with people I haven't seen for a while, they have already seen my updates on social media and I have seen theirs. I can go online and find out what my cousin in Liverpool had for breakfast and she can see the latest photos of my children. When we see each other, the conversation starts from a different place; we can skip through the bits that we have already read on Facebook.

Expectations around transparency are shifting

In a world of increasingly rapid, global communication, new forms of transparency are called for. In an era when pop stars, politicians and princes are using social media to announce pregnancies and tell us what they think about the world, the public is starting to expect the same level of instantaneous communication from the charities they support.

This presents a huge opportunity for charities able to adapt to a new way of telling their story but presents a real shift in behaviour for those more used to formal, planned, and infrequent methods of stakeholder information. Over the next few years, I predict larger charities will become increasingly focused on localising their communications so that the public understands they are supporting and interacting with the communities closest to their heart. To remain front of mind for donors it is therefore vital that smaller charities build in simple ways of remaining transparent and sharing their impact if they are going to succeed.

We need to embrace what the future holds

2018 will be a challenging and potentially difficult year for many. The world around us is changing so fast it can feel hard to keep up. Those who are able to embrace opportunities presented through these changes have the potential to really thrive. The Small Charities Coalition looks forward to supporting small charities on this journey. ■

Mandy Johnson
Chief Executive,
Small Charities Coalition

OVER THE NEXT FEW YEARS, THE CHARITIES THAT EMBRACE THE OPPORTUNITIES PRESENTED THROUGH AUTOMATION AND OTHER TIME-SAVING TECHNOLOGIES MAY FIND THEY ARE ABLE TO DO MORE WITH LESS.

CFG EVENTS PROGRAMME 2018/19

CFG runs a wide range of events and training courses, bringing together expert speakers from both the corporate and voluntary sectors to support you and your team.

Our events are a great way to network and knowledge-share with peers, plus there is always opportunity for charity members to lead sessions as speakers.

As party of your charity's CFG membership, all staff across the organisation are able to take advantage of reduced event rates. Look out for early bird offers for our conferences, for even greater discounts for members.

Throughout the year we will be redeveloping some of our conference events, giving you a fresh outlook on topics including IT, investment, risk, fraud, Community Accounting and many more.

Keep an eye on our exciting programme of events at **cfg.org.uk/events**

CONFERENCES

VAT

17 APRIL 2018, MANCHESTER
SEPTEMBER 2018, LONDON
SEPTEMBER 2018, BRISTOL
NOVEMBER 2018, BIRMINGHAM

Focusing on current issues around charity VAT, this Conference will provide updates on VAT, tax, partial exemptions and recovery, fundraising and zero rate activities and irrecoverable VAT, grants and contracts, and trading subsidiaries.

ANNUAL CONFERENCE

23 MAY 2018, LONDON

CFG's Annual Conference is the must-attend charity finance event of the year. Bringing together leaders of the UK charity sector, five streams of technical, practical and inspirational sessions, the Conference is the perfect opportunity to network with peers and sector experts. This year's theme is **Empowering Your People**, focusing on personal and team development.

IMPACT & PRODUCTIVITY

4 JUNE 2018, LONDON

Impact and Productivity is a one-day conference which focuses on how to measure and evaluate the impact of your charity's work, and how this information can be used to improve what you do. Beyond evaluating your current impact, we will explore how a move towards productivity, and how to engage your employees with this approach.

PENSIONS

13 JUNE 2018, LONDON

From financing potential deficits, to striking the right balance between delivering fair pensions to your staff, whilst demonstrating good financial stewardship to your beneficiaries, this Conference will cover all the challenges of managing pensions and support charities in understanding what your legal responsibilities are with regards to governance requirements.

GOVERNANCE

27 JUNE 2018, LONDON

The Governance Conference offers practical guidance on how to ensure your organisation is demonstrating good governance, develop constructive relationships between the board and charity staff, alongside an update on the latest regulatory frameworks, and how this will impact your liability.

INNOVATING FOR SUCCESS

29 JUNE 2018, LONDON

This Conference will focus on how charities can develop an innovation mindset, and make the most of opportunities to realise your full potential and deliver even better impact. Key topics for the day include digital innovation, income generation and new ways of delivering frontline services.

GIFT AID

6 JUNE 2018, BRISTOL
SEPTEMBER 2018, BIRMINGHAM
OCTOBER 2018, MANCHESTER
JANUARY 2019, LONDON

Gift Aid is vital for increasing your charity's fundraising income. Our Gift Aid Conferences cover all areas of the scheme and provide regulatory updates, as well as troubleshooting sessions where you can quiz the experts.

LARGE CHARITIES

SEPTEMBER 2018, LONDON

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

TECHNICAL UPDATE

21 FEBRUARY 2019, LONDON

This Conference will be your one-stop shop for all the latest regulatory updates and developments on VAT, tax, Gift Aid, HR, governance and any other topical issues that arise.

REGIONAL CONFERENCES

NORTHERN – 4 JULY, MANCHESTER
SOUTH WEST & WALES – 22 NOVEMBER, BRISTOL
MIDLANDS – FEBRUARY 2019, BIRMINGHAM

Our regional CFG conferences provide valuable updates relevant to the charity sector as a whole as well as discussing leadership and key issues at a regional level.

TRAINING

Our practical training courses cover a range of areas and take place in all four membership regions – London and the South East, the Midlands, the South West and Wales and the North of England. Whether you're new to the charity sector or well-established in your role, there's something for everyone.

INTRODUCTION TO VAT

24 APRIL 2018, LONDON

FOUNDATION CHARITY FINANCE

19 APRIL 2018, LONDON
1 MAY 2018, LEEDS
18 SEPTEMBER 2018, MANCHESTER
9 OCTOBER 2018, BRISTOL
17 OCTOBER 2018, LONDON

ADVANCED CHARITY FINANCE

26 JUNE 2018, LONDON
30 OCTOBER 2018, MANCHESTER
6 NOVEMBER 2018, BRISTOL
8 NOVEMBER 2018, BIRMINGHAM
20 NOVEMBER 2018, LONDON

FOUNDATION INVESTMENT TRAINING

18 APRIL 2018, LONDON
11 JULY 2018, LONDON
27 NOVEMBER 2018, LONDON

CFG EVENTS CONTINUED...

ADVANCED INVESTMENT TRAINING
27 JUNE 2018, LONDON
2 OCTOBER 2018, LONDON

FINANCE FOR NON-FINANCE MANAGERS
1 MAY 2018, LONDON
2 OCTOBER 2018, LONDON

TRADING AND THE LAW
9 JULY 2018, LONDON

DATA PROTECTION AND GDPR
24 SEPTEMBER 2018, LONDON

PROCUREMENT TRAINING
11 OCTOBER 2018, LONDON

NEW FOR 2018

INTRODUCTION TO VAT
24 APRIL 2018, LONDON

PEOPLE MANAGEMENT FOR FINANCE MANAGERS
3 MAY 2018, LONDON

MAXIMISING INCOME FROM GIFT AID
16 MAY 2018, LONDON

DATA ANALYSIS FOR FINANCE PROFESSIONALS
12 NOVEMBER 2018, LONDON

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 2018. More details online: **cfg.org.uk/IFL**

MEMBERS' MEETINGS

Our programme of regular meetings provide 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 and Wales. Meetings cover issues from VAT, tax, investment, risk and IT through to legal matters and HR. Visit our website and find out when the next meeting in your region is taking place.

FINANCE IN GRANT-MAKING SPECIAL INTEREST GROUP

CFG's Finance in Grant-making Special Interest Group operates in partnership with the Association of Charitable Foundations. ACF's Head of Learning and Events, Esther Thompson, sets the agenda for 2018 and invites finance professionals in grant-making organisations to come along and be part of the growing group.

The Finance in Grant-making Special Interest Group (SIG) is a partnership between Charity Finance Group and Association of Charitable Foundations, combining the expertise and reach of both organisations. This SIG meets three times a year, providing a forum for staff working in finance teams, specifically within grant-making organisations. The meetings serve a dual purpose of keeping members up-to-date with issues in the field – using a combination of expert advice and case studies – as well as providing a valuable opportunity to network with peers over lunch. Members guide the meeting topics – honing in on what is currently relevant to support them in their roles.

In 2017, topics included fraud and how to spot it; paper free grant-making; and working with smaller charities.

2018 meetings

March 2018
Practical elements of preparing for GDPR
With the implementation of GDPR fast approaching, grant-makers considered how they store and manage data, particularly when dealing with sensitive records and beneficiary data. They will also require an understanding of how to demonstrate legitimate interest and implied consent for communicating with grantees and the public. Crowe Clark Whitehill provided expert advice plus a foundation shared the steps they have taken to ensure their charity is ready for GDPR. There was a peer-led discussion where attendees explored GDPR related issues they are currently dealing with, as well as sharing steps they have taken to prepare.

June 2018
Grants vs. contracts: compliance and research
This meeting will provide guidance on where the legal loopholes are, what the difficulties and pitfalls are, as well as the challenge of funding non-charities. We will explore the various procedures when broaching contracts, and what can be put in place to prevent things going wrong.

November 2018
'What does the future hold?'
November's meeting will take a glance at what is on the horizon for grant-makers. The impact of Brexit on financial regulation, potential VAT changes, any new legislation, challenges around due diligence, block chain technology and its potential… the list goes on. We will look at a selection of issues so finance teams can consider the implications of the changing operating environment..

In 2018 – 2019 we will see if there is space and appetite in the meetings for policy updates focusing upon any financial regulatory changes.

You are welcome
If you are part of the finance team in a grant-making organisation, and you are member of ACF or CFG, we would love you to join us at the FIGSIG meetings. ■

Esther Thompson
Head of Learning and Events, ACF

LEARNING TO LOVE SCRUTINY – HOW LARGE CHARITIES SHOULD LEAD THE WAY

It's been a rocky start to the new year for the sector in terms of public scrutiny. David Renton, Chair of CFG's Large Charities Special Interest Group says there's a great deal to learn from the business world, where levels of standards and disclosure are proportionate to scale.

I hope that this year large charities will take a real lead in resetting how open we are as a sector to public scrutiny. We often seem to want the public's love, money and time but not the enquiring minds, feedback and views that come with any healthy relationship. The public do indeed love charities and we do great things for all manner of causes with that support, but we should be willing to invest more to make sure that our supporters understand the realities of charity business models in the 21st century. We should also be much more open to scrutiny – efficiency, effectiveness and delivery can all be measured and compared in the charity sector, just like in other business sectors.

Taking a business approach

So what are the realities of running a large charity today? Perhaps as a start we should accept that we are all running large and complex charitable businesses. We don't often use the word 'business' next to 'charity'. Surely some of the issues we are criticised for might be more manageable if we faced this issue with the public? I do think that we can get people to understand that there is a real difference between a small purely volunteer-staffed charity and a large national or international one raising hundreds of millions of pounds each year.

> TRANSPARENCY AND SCRUTINY SHOULD INCREASE PUBLIC TRUST AND POSITIVELY SUPPORT OUR CHARITABLE WORK, NOT HINDER IT.

In many ways, this reflects the wider business sector – our expectations of a small family-run corner shop are radically different to a large, national supermarket chain. The information that the latter is expected to share, the standards they must be seen to achieve and how they respond to issues all rightly reflect the scale and resources that they have available and their high public profile.

Perhaps we should accept that the standards of disclosure for the country's largest charities should be different and more extensive than for others. The private equity industry faced a similar set of issues ten years ago with a perception that some of the country's largest companies were then being run by secretive groups of highly-paid individuals, and jobs were being lost with no public explanation as the groups were no longer listed on the stock exchange. The actual issues are not the same but, in our sector, we have themes of executive pay, fundraising practices and overhead costs all teamed up with a set of disclosure rules that are really aimed at private companies or small charities. I have also heard people in the charity sector say that analysis of financial results shouldn't apply to charities.

The private equity industry response was to have an independent report on additional disclosures (the Walker Guidelines for Disclosure and Transparency in Private Equity) that have now been voluntarily adopted. The industry itself also set up a group to monitor compliance with the rules which reports annually. Last year 79% of companies reported in line with the guidelines. This is way in excess of the 31% of charities that have so far adopted the NCVO's core recommendation in 2014 that chief executive pay should be disclosed in the annual report. This should provide food for thought for leadership within our sector.

Large charities taking the lead

I think it could be a game changer for us as a sector if large charities got together to act on the issues of disclosure. Getting on the front foot in a comprehensive way will put us in a different position altogether in relation to press comment about these issues. We might also learn something along the way by involving supporters in setting these new standards. Setting up a body to monitor compliance and publish results is essential.

Perhaps we could also invite some of those expert analysts from the investment banking community to scrutinise us – a good use for a bank's community support budget. Wouldn't it be great if the CEOs of the country's largest and best-loved charities announced their annual results on Radio 4's Today programme, and the conversation with the inimitable John Humphrys (or even Dominic O'Connell, the business presenter) covered not only what good they have done in the year, but also how efficient they are (or not, of course), why the overall costs of raising money had changed and anything else that journalists or analysts have identified as being out of kilter with the rest of the relevant peer group. Transparency and scrutiny should increase public trust and positively support our charitable work, not hinder it.

This could all prove uncomfortable for any of us of course, just as it can be for any business in the spotlight. But openness to scrutiny and having to answer for our use of the resources that the public so generously and so consistently give us is not a 'nice to have', but an essential part of keeping our sector healthy and well supported for the long-term.

David Renton,
Director of Finance and Investment, Guy's and St Thomas' Charity

03

TECHNICAL INSIGHTS

IN THIS SECTION

NAVIGATING VAT IN 2018

A lack of clarity on VAT will prevail in 2018 says charity VAT specialist Socrates Socratous. Along with changes in recording and reporting, if you're a VAT-registered charity, brace yourselves for another challenging year.

Many organisations might rightly feel that after almost 45 years since the introduction of VAT, we should be in a situation where the legislation is clear, unambiguous and the so called 'grey areas' are a thing of the past. Unfortunately, that is not the case. Taking a small sample of VAT cases affecting charities heard in the Tribunal and Courts during 2017 alone, makes it clear that we are nowhere near certainty on many issues and that there will be a continuing onus on organisations to regularly monitor their activities and keep abreast of the 'latest' VAT developments.

Case law summary

A quick summary of areas considered by the courts includes; *British Film Institute* on the application of the cultural exemption, where the Court of Justice of the European Union (CJEU) decided that Member States are free to decide what is 'cultural'; *English Bridge Union* where the CJEU decided that 'sport' must include some physical activity and exemption did not extend to card games; a win for the taxpayer in *Brockenhurst College* where the CJEU confirmed that services ancillary to the provision of education did not have to be supplied direct to the recipient of education to benefit from exemption; the Adecco temporary staff case, which was disappointingly lost in the Upper Tribunal.

In Life Services Ltd the Upper Tribunal has considered what was meant by a 'state regulated body' re the welfare exemption, whilst in *Healthwatch Hampshire* (HH) the Tribunal grappled with the never ending question as to whether income is a grant or payment under a contract (see below) and found that HH had a contract to supply services; whilst *Yorkshire Agricultural Society* lost their argument that their free events were a business activity.

It will be interesting to see whether HMRC appeal the decision of *Harley-Davidson Europe Ltd* where the First Tier Tribunal found that the membership subscriptions constituted a mixed, not a single supply – reaching a conclusion that Harley's members were not interested in the 'status' of membership but were after the various elements of the package. This contrasts with the Tribunal decision in the *Serpentine Gallery* where the Tribunal asserted that supporters received a single standard rated supply of 'association' with the Gallery. The decision might benefit many charities which cannot use the ESC for subscriptions to member's clubs. Finally, for any organisations with protective claims for VAT incurred on investment management fees, Cambridge University's case was heard in the Court of Appeal in December and it has decided to refer the matter to the European Court of Justice.

In particular the CoA wants guidance on whether costs that are attributable to a non-business activity can be linked to an organisations wider business activities when considering VAT recovery.

No doubt case law will continue to be high on the radar for next year, particularly as appeals work their way to higher courts for conclusion. However, there are other areas that should also be high on the to do list. Aside from the potential implications of Brexit, the introduction of Making Tax Digital (MTD) from 1 April 2019 will have a huge impact on both taxpayers and HMRC.

Making Tax Digital

Most VAT registered business currently file their VAT returns online by manually entering the figures derived from their accounting software and other records. From 1 April 2019, VAT registered businesses with turnover above the registration threshold must keep their records digitally for VAT purposes. That digital software must be capable of filing the VAT return automatically via 'functional compatible software' – broadly, software or spreadsheets (or a combination thereof) which can connect to HMRC via an Application Programming Interface (API) – not by manually inputting figures onto HMRC 's portal.

What does this mean?

- All prime records must be kept in electronic format, this includes any adjustments made.
- Each step in the accounting process, after inputting source data, must be digitally not manually managed. In other words, after inputting invoices, journals etc., software programs must sort and consolidate data right the way through to uploading the VAT return totals to HMRC. Data transfer between digital accounting records and any excel spreadsheets used must be via electronic links.
- Functional compatible software will be needed to communicate between digital records and HMRC. HMRC will not provide this software, but instead we understand software companies are working with HMRC to update their accounting packages or provide stand-alone linking tools.
- HMRC will be able to digitally examine the 9-box VAT return data as it reaches their systems, but it will not be able to access your underlying data. HMRC will encourage taxpayers to voluntarily provide some additional information to aid better understanding of their VAT position.
- In time, HMRC will sense-check the data it receives at the point of submission. This may prompt questions or a request for further data if there appears to be any inconsistency with previous information.

> CLEARLY 2018 WILL BE YEAR OF MAJOR CHANGE FOR THE WAY ORGANISATIONS MAINTAIN THEIR VAT RECORDS, WITH INCREASED REPORTING REQUIREMENTS TO CONSIDER ALONG THE WAY

HMRC have published regulations to introduce MTD for VAT, an Explanatory Note, a new Draft VAT Notice and an Addendum document outlining 'user journeys'. The regulations provide that VAT registered businesses (including charities) must keep an electronic account of information specified in the amended regulations and must use an approved form of software to prepare and render VAT returns.

HMRC will be piloting the changes from Spring 2018 and is keen to ensure a wide range of different organisations, including charities, take part in that pilot to ensure everything is thoroughly tested ahead of April 2019.

Once a business is required to keep digital records, this requirement remains in place even if turnover falls below the VAT threshold and the business remains registered for VAT – in other words, once a business is in MTD, it stays in.

SECTION 3: TECHNICAL INSIGHTS

Grants vs contracts

HMRC has finally published updated guidance on whether a payment is a grant or consideration for a supply. The guidance is much improved and sets out some of the factors that should be considered to help will determine the VAT treatment of funding organisations receive.

Whilst there will never be a definitive 'tick list', and each case must be considered in light of its own facts, the indicators pointing to there being a grant or a contract for services is supported by a summary of some of the relevant case law, so that taxpayers will be better placed to decide on the VAT implications.

Hopefully the guidance will be 'fine-tuned' by HMRC once organisations have had the opportunity to digest the guidance and considered whether further improvements are necessary. It is understood that HMRC are also in the process of updating their guidance on sponsorship arrangements and this will also provide much needed clarity to an area that is often misunderstood.

Compliance

One final area that we all need to keep an eye on in 2018 is compliance and the regulatory requirements placed on business. The introduction of the Corporate Criminal Offence (CCO) places an obligation on organisations to undertake a risk assessment to prevent the facilitation of tax evasion and it is explicitly stated that this must be "documented and kept under review".

In addition to the CCO, HMRC also recently issued Notice 799 providing its guidance on how the Disclosure of Tax Avoidance Schemes: VAT and Other Indirect Taxes rules (DASVOIT) rules apply from 1 January 2018 (i.e. DOTAS for VAT and other indirect taxes). These shift the onus to notify to the promoter/provider of a scheme rather than the user. HMRC also updated Notice 700/8, Disclosure of Avoidance Schemes (VADR) but the requirements of DASVOIT effectively replace this. A disclosure may be required where arrangements give rise to a 'tax advantage' (as defined) which is the main benefit, or one of the main benefits, of the arrangements.

There are penalties for non-disclosure and so organisations will need to determine whether their tax schemes or structures trigger a requirement to disclose.

The changing landscape

Clearly 2018 will be year of major change for the way organisations maintain their VAT records with increased reporting requirements to consider along the way. Add to that the constant stream of case law and the potential ramifications of Brexit and one can only conclude that VAT will continue to be a thorn in the side every VAT registered organisation.

Socrates Socratous is a Director of SOC VAT Consultants, ***www.socvat.com***

Socrates Socratous,
Director, SOC VAT Consultants

GIFT AID UNWRAPPED

What impact will GDPR have on all the Gift Aid declarations that you've diligently kept over the years? What do the changes to the Gift Aid Donor Benefit thresholds mean in practice? Just two of the questions Andrew O'Brien addresses in his outlook for this major tax relief for charities in 2018.

Every finance professional knows that one of the most important benefits for registering as a charity is the access that you get to tax reliefs. Gift Aid is one of the biggest, worth over £1.2bn a year to our sector. Around 100,000 charities are registered for Gift Aid and over 70,000 of those claim every year. What happens to Gift Aid, therefore, has a big financial impact on a large number of charities.

2018 is turning out to be a tale of two halves. The first half will be dominated, like so much in the charity sector, by data protection and GDPR. The second half will be about the new Gift Aid Donor Benefit rules and new guidance.

Data protection and Gift Aid

At our most recent Gift Aid conference, one of the key topics of debate was data protection.

The first thing to make clear is that you continue to have to hold records for six years under HMRC rules. GDPR doesn't change this in any way. However, many are considering whether enduring declarations could be kept forever, in case of future donations. Here the answer is not as straightforward.

Under data protection, charities have a duty to dispose of data as soon as it is no longer necessary. Yet an enduring declaration can last for decades, and what if the donor decides they want to donate again?

In this kind of situation, charities need to consider the likelihood of an individual donating again over a reasonable time period.

If a donor hasn't donated after six years, despite having an enduring declaration, is it reasonable that they are going to donate again? It appears to be difficult to justify that they may, in which case, it is probably safer to dispose of all declarations after six years from when the last donation was received, rather than keeping hold of enduring declarations in the hope that the donor will come back to the charity.

Another key topic was consent and whether donors who had not consented to being contacted for fundraising requests could be contacted about Gift Aid. This is another grey area but a fair reading of the guidance appears to indicate that you can contact them about Gift Aid, if they have signed a declaration, because you are contacting them in order to fulfil their wishes. This fulfilling of a contract or an obligation is one of the legitimate reasons for processing data under the GDPR. However, your contact must be limited to just talking about Gift Aid. This means that charities cannot use Gift Aid as a way to try and generate further fundraising leads.

Remember if you have further questions about GDPR, you can always read CFG's latest guide on our website at **cfg.org.uk/GDPRguide**.

IF A DONOR HASN'T DONATED AFTER SIX YEARS, DESPITE HAVING AN ENDURING DECLARATION, IS IT REASONABLE THAT THEY ARE GOING TO DONATE AGAIN?

Changes to Gift Aid Donor Benefit rules

In the Chancellor's first Autumn Budget, changes were made to Gift Aid Donor Benefit rules following two years of consultation with the charity sector.

The proposed change appears straightforward on the face of it with the three threshold limits for what can be given as a 'thank you' to donors reduced to two.

The current limit of a thank you being worth only 25% of the total value of the donation for the first £100 will remain.

But for donations over £100, charities will be able to give 5% for the part of the donation that exceeds £100. This is in addition to the 25% for the part of the donation that was under £100.

If you have software that can help with the calculation, or a lot of experience in fundraising, then I think that this will be helpful as it will avoid the cliff-edge that the current system brings into effect. However, for smaller charities, getting their heads around this new system is going to require a great deal of communication and could lead to confusion. Understanding your charity's current benefits and the type of fundraising that you are undertaking will be critical to maximising the advantages of the new rules.

Fortunately, charities have until February 2019 to upgrade their software and educate their staff.

New guidance on the way

In preparation for the new Gift Aid Donor Benefit Rules, HMRC will be producing new guidance. This will hopefully give better examples of how the rules can be implemented in practice.

CFG has also been assured by ministers that they will be considering the value test.

As the average donation amount is £45, the changes in thresholds are not going to help the vast majority of donations. The valuation of benefits is of far more consequence for charities. The current test requires charities to value benefits by what they are worth to the donor, rather than what they cost the charity to purchase. This can be very confusing when you are dealing with intangible items such as 'behind the scenes access' to a play being put on by a local theatre company, or a free piece of artwork from a service user of the charity, which is not commercially sold.

Changes to the guidance on the valuation of benefits and better examples around membership/patron schemes are probably going to be of more importance to charities than changes to thresholds.

Making the most of Gift Aid

If you haven't really considered Gift Aid so far, 2018 is a good year to consider it properly. Data protection rules mean that charities have to better understand the data that they are collecting and may highlight opportunities for maximising Gift Aid uptake. As donor acquisition becomes harder, getting the most out of existing donations will be even more important.

The introduction of new guidance is a good way to re-engage staff and volunteers. Remember to look out for upcoming CFG Gift Aid Conferences in your area if you want to reach out to colleagues and hear from experts. ■

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

A CHANGING LANDSCAPE – CHARITY BANKING IN 2018

Many of the challenges facing charities mirror those faced by the banking sector – changing needs of end users, a shifting regulatory framework, an emphasis on business models, and, of course, digital transformation. Hugh Biddell gives us an invaluable overview of some of the changes in the banking sector pipeline for 2018 and beyond.

Many of the issues and trends that I wrote about for the 2016 CFG Pink Book remain as valid today as they were then:

- increased regulatory and media scrutiny
- pressure from public sector bodies to reduce cost
- a trend to move to payment in arrears at the same time as minimum/living wage and sleep-in rates are coming to the fore, plus
- an increasing demand for services, digitisation, new fundraising, GDPR requirements and pension deficit planning.

Banks themselves are on a similar journey of changing customer and regulatory demands. Three areas of change in banking regulation – open banking, changes in the cheque clearing model and ring-fencing – may also impact charities throughout the year.

Efficiency, efficiency, efficiency

As charities, in line with other sectors, reassess beneficiaries and community requirements, they are also looking at the service pathways to meet those needs more simply and effectively.

Simplification and alignment of finance department, fundraising activities and volunteer pathways are taking place.

Banks are changing and simplifying their processes too. A higher usage of online and mobile banking provides a key opportunity to reduce cost and maximise the value of small donations and shop-takings.

The whole pathway from taking a donation through banking and reconciliation to thank you is under review, and there is a need to work together as finance departments and banks to optimise the customer experience.

The same trend applies to using purchasing cards, and many charities are expanding their use. One area of particular interest is how to effectively make smaller grants to vulnerable beneficiaries, and what to do to minimise and reduce petty cash. Continued progress and innovation in these areas is guaranteed, so watch this space.

Pace of change

We are seeing a much stronger pace of change to charities' business models. These include closing more direct delivery services, accelerating the move of delivery from outdated premises to new models and coming out of delivering services entirely.

The emphasis is on a shift to online delivery at increased scale. In fact, many of my discussions with charities show that they are recognising the value of scale and strong local relationships in direct service delivery.

SECTION 3: TECHNICAL INSIGHTS

In many cases they are spread thinly, so the strategic choices they are considering may be to focus, grow, acquire, work with partners or divest. Charities need to continue working with their bank to understand how the transition and working capital can be financed.

In the light of these developments, we are seeing a desire to use finance in different ways to match investment, and the period when investment pays back, more closely rather than use cash up-front. Charities scaling up networks of shop, changing their delivery models, updating CRM systems and installing LED lighting, or other green products, might seek to match the cash outflow to receipt of cost savings or income more closely.

More attention is being paid to the proper relationship with, and transparent governance of, trading subsidiaries. There is a recognition of the need to diversify income sources and invest to help the sustainability of charities.

This is leading to a wider range of types of finance being deployed. Charity finance teams are not only examining their criteria for decision support but also considering the range of appropriate investment hurdles such as weighted average cost of capital or social outcomes.

The growth in various types of social finance continues, with retail bonds being arranged, while one major charity has recently accessed the private placement market with a long-term placement. Clearly each charity is different and trustees need to consider carefully what is right for them, taking advice as necessary.

Technology and innovation

With the rapid advancement of technology as a core asset in all businesses, there is a consideration for charities to refresh their IT, both at regular intervals and in response to changing business models.

Newer equipment offers charities incrementally faster operating performance as well as reduced power and space costs. Also, refreshing IT equipment as it comes out of manufacturer's warranty can also help avoid significant expense on maintenance.

We are seeing some charities starting to use residual value leasing as a result. Some banks' asset finance businesses will take a risk position on the value of the assets being financed – typically laptops, desktops, tablets and mobile devices – and pass the resulting savings to the end user in the form of reduced rentals.

This has three benefits: reducing overall cost, driving a greater return on investment as well as establishing a pattern of periodical refresh programmes.

The banking industry itself has faced pressure for change both at a regulatory level and in terms of openness and customer choice, and three major regulatory and operational changes in 2018 through 2019 are: open banking, a new cheque clearing model and ring-fencing.

Open banking

Open banking was launched this year by the Competition and Markets Authority (CMA). The objective is to improve competition by allowing personal and business customers to share their banking data and initiate payments securely with other banks and third parties.

CHARITY FINANCE TEAMS ARE NOT ONLY EXAMINING THEIR CRITERIA FOR DECISION SUPPORT BUT ALSO CONSIDERING THE RANGE OF APPROPRIATE INVESTMENT HURDLES SUCH AS WEIGHTED AVERAGE COST OF CAPITAL OR SOCIAL OUTCOMES.

Open banking has primarily been developed with the consumer in mind. Increased competition leads to originality and creativity, with organisations incentivised to launch offers and services that differentiate them from the competition. The consumer benefits from personalised deals that match their individual needs.

However, it is also worth noting that open banking isn't compulsory. Those who want to take advantage can, but it will not be forced upon anyone. However all banks will need to conform, and consumers can only benefit if they have online banking.

Future clearing model – image clearing system

Future clearing model is a mandatory, industry-wide programme designed to improve the efficiency and speed of the UK GBP cheque process from six weekdays to two weekdays. This faster, more efficient processing is thanks to the introduction of an image clearing system and all UK banks and building societies will be adopting this system. Cheque imaging is being phased in during 2018 and until this new system is fully implemented, cheques can either be processed by the existing paper model or be image cleared. Your bank will explain how this might affect your charity when receiving cheques from donors or paying out cheques. More detail is available on the Cheque and Credit Clearing Company website: **https://www.chequeandcredit.co.uk/cheque-users/consumers/cheque-imaging**

Ring-fencing

Ring-fencing is a key component of the UK Government's legislative agenda to improve financial stability. It requires larger UK banks to separate their everyday banking services from investment banking by 1 January 2019. This reform is intended to help protect the UK economy and make the banking sector safer and more resilient. Moody's, one of the big three credit-rating agencies for the UK, reported that they 'expect the standalone credit profiles of the ring-fenced banks to be in line with or stronger than those of the existing bank' (see below for link to full report).

There are certain products which sit outside the ring-fence such as trading in investments or commodities, debt capital markets, complex derivatives, structured products and dealing in certain asset-banked securities.

The majority of customers will experience very little change but where there may be any difference in products, or how they are provided, their banks will be in contact.

The impacted banks are taking different approaches, with some creating new ring-fenced and/or non-ring-fenced entities, requiring customers to have new account numbers and/or sort codes. In these cases, payment re-routing is designed to minimise the impact of such changes. The majority of charities will sit within ring-fenced bank entities but some of the larger charities may sit outside.

If you have any questions about ring-fencing, speak to your bank in the first instance.

Big picture

Although there is a great deal of change on both sides, the key is, as always, to engage with your bank and make sure they understand your ambition and needs. A close relationship with your bank will help you to become safe and secure for the future.

Further reading on ring-fencing:

1. *Financial Conduct Authority: https://www.fca.org.uk/consumers/ring-fencing*
2. *Gov.UK: https://www.gov.uk/government/publications/ring-fencing-information/ring-fencing-information*
3. *Moody's: https://www.moodys.com/research/Moodys-UK-Ring-Fencing-Rules-To-Impact-Banks-Credit-Fundamentals--PR_355625*

Further reading on open banking:

1. *https://www.openbanking.org.uk/about-us/*

Further reading on the new clearing model:

1. *https://www.chequeandcredit.co.uk/cheque-users/consumers/cheque-imaging*

Hugh Biddell
Head of Charities and Not for Profit at NatWest

ALTERNATIVES AND PROPERTY – A SUSTAINABLE AND GROWING INCOME

How do charities generate long-term, sustainable income which is both low cost and low risk? Investing in property and infrastructure as part of a well-managed and diverse portfolio could be the key, says Quilter Cheviot's William Reid.

Charities are under increasing pressure to find alternative sources of income. Equity dividends are stretched; payments from fixed income and cash, for long the mainstays of their investment portfolios, are at near record lows; and then there is the return of inflation, which has made the search for income all the more urgent.

The challenge is to generate income without spending too much. An obvious solution is the alternatives universe, but even here the risks are manifold. Some charities have dabbled in hedge funds, without success. A better option for many has been the real assets sector, in particular property and infrastructure. The benefits of property are well-known: the returns are based on rental income, offering diversification with relatively low volatility. The asset class does feature low liquidity and higher trading costs, but this is not a problem for long-term investors, such as charities and pension funds.

The main challenge for charities is to diversify the investment portfolio and establish a long-term, stable and growing income stream. At Quilter Cheviot, we use a range of investments designed to provide diversification and to spread income risk. The funds are invested mainly in property and infrastructure, but also in other specialist investments such as renewables, aircraft leasing and mortgage finance. All come with different risk profiles, both to income and to capital, but typically pay incomes of around 3-8%.

Ground Rents Income Fund is a real estate investment trust (REIT), with a focus on achieving stable, long-term performance by investing in long-dated UK ground rents. Historically, these have not suffered the same peaks and troughs as the economy or even the wider property market. The fund has acquired sites across the UK, including most recently in Brentford, Bristol, Northumberland and the Vita Student Village in York. The ground rent income of all of these assets is linked to RPI.

Secure Income REIT has a portfolio of 81 well-established real estate assets. These include 19 private hospitals throughout England, where the rent increases by a minimum of 2.75% per annum each May throughout the lease term, which currently is 20 years with no break options.

Also in the portfolio are four well-known visitor attractions, including Alton Towers and Thorpe Park. Rental income here increases annually in line with RPI. The average unexpired lease term is 25 years, with no break options.

Tritax Big Box REIT is the only REIT dedicated to investing in very large logistics warehouses in the UK, known as 'Big Boxes'. The assets are let or pre-let to blue chip names, such as Marks & Spencer, Tesco, Amazon and Rolls Royce. The fund is targeting a net shareholder return of more than 9% a year, over the medium term.

We also invest in the Charities Property Fund and the Property Income Trust for Charities. These pooled property vehicles are designed to enable qualifying UK and EU charities to co-invest in UK property in a way that is tax efficient for capital and income. An added benefit is that when they acquire property they are exempt from Stamp Duty Land Tax (currently 5% on transactions over £500,000).

Continuing the diversification theme, we believe that student accommodation also represents a good investment. GCP Student Living invests in modern, purpose-built, private student residential accommodation and commercial properties in London, targeting attractive total returns and regular, sustainable, long-term dividends with RPI inflation linked income characteristics. The average rental growth for the portfolio of standing assets for the 2016/17 academic year was 3.9%.

Another attractive area is in primary healthcare premises. Primary Health Properties specialises in properties leased to GP surgeries, government healthcare bodies and other healthcare users. With 90% of the rent roll funded by government bodies, this investment has the potential to deliver a stable income stream.

Infrastructure is popular with charities and pension funds for offering long-term flows of income. Quilter Cheviot invests in a range of specialist infrastructure funds. HICL Infrastructure has an investment strategy that focuses on assets positioned at the lower end of the risk-reward spectrum. The assets are located mainly in the UK, but also internationally. The investments have a cash yield of more than 4.5% for an average concession life of more than 20 years.

International Public Partnerships invests in schools, courthouses, police stations, rail operations and other assets in eight different countries. The portfolio has consistently delivered dividend growth and capital appreciation. A significant portion of the portfolio (10.9%) is invested in secured senior debt.

BBGI, a Luxembourg-incorporated company, has a geographically diversified portfolio of infrastructure assets with strong yield characteristics, based on government backed revenue streams, inflation-linked returns and long term contracts.

The government's promotion of the renewables sector presents an investment opportunity. Bluefields Solar Income Fund offers 7% RPI inflation-linked returns, backed by contracts that the UK government is unlikely to pull for reputational reasons. But, with advances in technology, for example battery capacity, the sector can only grow.

THE BENEFITS OF PROPERTY ARE WELL-KNOWN: THE RETURNS ARE BASED ON RENTAL INCOME, OFFERING DIVERSIFICATION WITH RELATIVELY LOW VOLATILITY

Aircraft leasing is a niche investment strategy with interesting returns on investment. Doric Nimrod Air, a Guernsey-based company, manages three Airbus A-380 airplane investment companies, with planes leased to Emirates Airline, the government-backed national carrier of United Arab Emirates, operating out of Dubai. The fund aims to obtain income and capital returns by acquiring, leasing and then selling single aircraft. It offers an income of 8.25% for 12 years, which is hedged into sterling. The debt is amortised over 10 years, which gives the fund outright ownership of the aircraft for the last two. While there is no guarantee of capital returns on the sale of a 12-year-old aircraft, the risk is mitigated by the A-380's construction quality and by the fact that Emirates Airline operates long-haul routes, which are easier on a plane's airframe than short-haul routes.

We believe a mixture of the above types of alternative investment can offer charities the ability to diversify income risk and potentially offer lower capital volatility, when investing for the medium to long term.

Note: investors should remember that the value of investments, and the income from them, can go down as well as up. Investors may not recover what they invest. Past performance is no guarantee of future results.

Any mention of a specific security should not be interpreted as a solicitation to buy or sell a specific security.

William Reid
Head of Charities, Quilter Cheviot

WHAT DOES RISK MEAN TO CHARITIES?

Don't fall into the trap of simply viewing investment risk in terms of volatility and capital loss says Ruth Murphy from Brewin Dolphin, a 360° view of risk will help you develop a robust investment policy statement. Here she provides an overview of the range of risks that charity investors need to consider.

One of the key conversations we must have with our charity clients surrounds risk. Immediately, when considering risk from an investment perspective, investors often only think about the potential for capital loss and volatility.

However, risk to capital and volatility only forms part of the discussion, and we believe investors need to think about risk in a more comprehensive manner.

There are a variety of different risks that we must review, and depending on the charity's circumstances and objectives, some risks will be more pertinent than others.

Below we consider some of the risks that charity investors need to consider and why they may be important when considering investing and developing an Investment Policy Statement (IPS).

Risk to capital and income

This is the risk that capital and/or income is permanently destroyed or lost. More often than not, this risk type is associated with a company failure (e.g. a company going bankrupt) and accordingly is largely connected to equity investments, although this risk can also occur with bond investments. We must remember that the value of an investment will rise and fall over time (volatility, discussed below) and clearly charities don't want to be in the position of needing to cash in an investment at a market low.

Warren Buffett, often heralded as the world's most successful equity investor, has a solution to avoid risk to capital in his two main investment rules. Rule 1: Don't lose money. Rule 2: Refer to Rule 1.

Volatility

Volatility has long been associated with risk, with the central premise being that higher risk assets offer the potential for higher returns but will also be more volatile over the holding period. Accordingly, as volatility is measurable, and there is no simple way of capturing all the various types of risk, it is often used as a proxy for risk.

However, we must be mindful of solely looking at volatility as being the same thing as risk, as volatility is a consequence of a variety of risks and external factors, rather than a cause of risk.

To better illustrate this point consider this example. The large amounts of volatility that we have witnessed in equity markets over the past 15 years would be supportive of the conclusion that a higher risk asset has higher levels of volatility. We must accept that volatility can affect all assets, with the exception of cash, and be cognisant of the factors that will bring about higher levels of volatility.

As investors in a variety of asset classes, we need to ask about the level of volatility that is comfortable and tolerable for our charity clients.

> WE MUST BE MINDFUL OF SOLELY LOOKING AT VOLATILITY AS BEING THE SAME THING AS RISK, AS VOLATILITY IS A CONSEQUENCE OF A VARIETY OF RISKS AND EXTERNAL FACTORS, RATHER THAN A CAUSE OF RISK.

The question trustees need to ask themselves is how concerned are you about the rises and falls in the value of the investments, even though the investments may still be on track to deliver your required outcomes over a longer-term time horizon?

Shortfall risk

What is the risk of the investment not meeting the underlying investment objective? What are the implications for an organisation that cannot fund their work as not enough capital growth or income has been generated? This isn't necessarily associated with a loss of capital or income as described above. Often, shortfall risk occurs when not enough market risk has been taken on and the returns generated have not been sufficient, but it can also occur when too much risk has been taken on. Consider how much risk your charity needs to take on, remembering that risk cannot be avoided; the key is how it is managed.

Interest rate risk

This is the impact that rising or falling interest rates may have on investments. Although this risk type is more commonly associated with lower risk cash and fixed interest investments, we must remember that all asset valuations are dependent on interest rates. What are the risks of locking into current rates of interest?

Inflation risk

This is the risk that the purchasing power of the investment is eroded by inflation. Whilst many other risk types are tangible (i.e. we can see a fall in value) and visible over both a short and long-term time horizon, inflation risk is more covert. Inflation is particularly damaging over long-time periods for lower-risk assets, such as cash and fixed interest, where we would expect the returns to be lower. It is therefore important to consider what the 'real return' – the return after inflation – is likely to be. Inflation risk is a significant issue for charities, most of whom have very long-time horizons. A careful balance must be struck when dividing assets between 'lower risk, lower return' investments and 'higher risk, higher return' investments, taking into account that equities have traditionally provided the best long-term returns ahead of inflation.

Liquidity risk

This is the risk of being unable to access the money invested. Liquidity risk has two components: will you need access to the capital; and then how quickly will you need the capital? Clearly, cash is the most liquid investment available, with investment into direct property probably being the most illiquid.

However, there can be occasions (usually around times of market stress) where it may be difficult to sell equity or fixed interest investment, particularly in the less liquid or smaller parts of the markets.

Reputational risk

Whilst much of the debate about risk focuses upon the technical elements, preservation of reputation is a key factor in every activity a charity undertakes. Aside from the internal governance issue of maintaining and reviewing a risk register, the investment criteria (including risk appetite) set out in the IPS are a useful way of highlighting the plans made by the trustees and how they are in the interests of beneficiaries.

How many of us have heard the view that charities should not invest, rather spend all their funds, as soon as they come in? (This can be dealt with by a conversation on the importance of reserves for survival). The annual report is then the place where a summary of the IPS serves as a useful summary of the reasons the charity is investing and some key points from the IPS, set out for all the stakeholders to see and review, if necessary.

Regulations and best practice

In their comprehensive guidance on risk for charities (CC26), the Charity Commission for England and Wales reiterates the point about being conscious of the risks faced by the charity and highlight some specific ones relating to investment (in the Financial Risks section). Whilst the Commission does not regulate all charities in the UK, their guidance is often deemed best practice. They also highlight both the potential impact of each kind of risk and some of the steps trustees can take to mitigate them. Among those included are: loss through inappropriate investment; lack of investment advice; lack of diversification and the lack of income streams to fund beneficiary activities. In mitigation, much of the guidance centres on having the right IPS, taking advice and being prudent.

Striking the right balance

In debating the range of risks, there can also be a conflict between risks. For example, if you require a strong total return, you cannot also make a policy statement that you wish to be a low-risk investor, given the volatility and other risks you need to absorb in order to gain those returns over the long-term.

In these instances, compromises have to be made and the investor must be aware and accepting of potential consequences. The answer for charities is striking an appropriate balance between all the types of risk described in order to achieve their objective. Taking advice when required, and reviewing both the policy and investment outcomes, enables them to fulfil their duties and adapt over time.

Conclusion

So what should be the thought process and trustee conversation about risk? Firstly, you need to consider whether your charity can take on risk, which type and how much. What is your charity's ability to absorb either a loss in the capital value of its investments or a reduction in the income generated from investments?

Then we need to establish whether you are willing to take on risks that you are reasonably able to absorb. Are you comfortable with the aforementioned risks and accepting of potential volatility? In addition, and in keeping with 'shortfall risk', you should consider how much risk you need to take on in order to achieve your desired investment objective. ■

Ruth Murphy
Head of Charities, Brewin Dolphin

WORKING WITH YOUR TRUSTEES TO GET YOUR INVESTMENT POLICY RIGHT

A well-thought-out investment policy is essential to achieving your charity's goals and demonstrating that trustees have fulfilled their duty of care. Nick Murphy from Smith & Williamson outlines the five key areas that you need to address when you're writing your policy.

A written investment policy provides a framework for your charity's investment decisions, helping trustees to manage the charity's resources effectively and demonstrating good governance. It's like a road map for the trustees and your investment manager to follow, setting out the charity's investment objectives and how you would like your portfolio to be managed.

Trustees have a duty of care when appointing and reviewing investment managers. The trustees are always responsible for setting investment policy, deciding whether to delegate decision-making and reviewing performance measurement.

A written investment policy is a requirement of the Trustee Act 2000, but also represents best practice for all types of organisation. Although you cannot delegate writing the policy to an investment manager, it's helpful to prepare the policy in consultation with them.

Here are five key areas that need to be addressed when creating your investment policy:

Objectives and investment powers

The aim is to give enough background information to the investment manager so that they can easily identify your mission, beneficiaries, structure, type of charity and your financial objectives.

This should include any liquidity requirements and an indication of whether the trustees are seeking income only or a 'total return' approach, meaning that some of the capital return of the charity can be spent each year. This needs to be carefully considered and documented.

Any restrictions on the investment powers of the charity (for example, imposed by its constitution or donors) should also be documented explicitly, to remove ambiguity.

YOUR POLICY NEEDS TO SET OUT THE TIME HORIZON OVER WHICH YOUR PORTFOLIO WILL BE INVESTED, HOW MUCH RISK THE TRUSTEES ARE PREPARED TO TAKE AND HOW THESE RISKS WILL BE MITIGATED.

Time horizon and risk

Your policy needs to set out the time horizon over which your portfolio will be invested, how much risk the trustees are prepared to take and how these risks will be mitigated.

Risk is strongly linked to time horizon. For example, cash is generally seen as low risk, but currently produces almost no return and is constantly being eroded by inflation. So over longer time periods, cash becomes high risk.

Risk will also mean different things to different people, so it's essential that both trustees and your investment manager have a strong understanding of what each means by risk.

Portfolio constraints and restrictions

Your policy should specify permitted asset classes, restrictions on investment types or ethical considerations, base currency and tax considerations.

Many charities now have an ethical investment policy. This might be based on negative screens, such as excluding investments in tobacco or arms manufacturers, or positive screens, which aim to allow investment only in companies following the very highest environmental, social or governance standards.

A charity can invest on an ethical basis to avoid investments which conflict with its aims, if it risks losing supporters or beneficiaries if it doesn't invest ethically, or if there is no significant financial detriment.

Strategic asset allocation, benchmarking and targets

Asset allocation is the single biggest factor in determining both risk and reward.

It's vital therefore to agree a strategic asset allocation that will allow the charity to reach its long-term financial objectives. This can also be used as the basis of a performance benchmark against which the trustees can compare the performance of the investment manager.

Many charities also set an investment range within which the investment manager can make changes without referring back to the trustees.

Performance and reporting

Trustees must assess the performance of their investments and decide what reporting they require, for example quarterly valuations and annual investment reports. The trick is to make sure that reports are clear, performance history and costs are transparent, and of course that trustees understand them.

You should also agree on the frequency of regular review meetings. You should review your investment policy at least annually and have a more comprehensive review around every five years.

Quick checklist for establishing your investment policy

- ✓ Appoint a sub-committee to advise the full board of trustees
- ✓ Make sure investment objectives are workable and achievable
- ✓ Document the rationale behind decisions for future generations of trustees
- ✓ Keep it short and relevant
- ✓ Get your investment manager to agree, sign and date your policy
- ✓ Review at least annually

Risk warning

Investment does involve risk. The value of investments and the income from them can go down as well as up. The investor may not receive back, in total, the original amount invested. Past performance is not a guide to future performance. Rates of tax are those prevailing at the time and are subject to change without notice. Clients should always seek appropriate advice from their financial adviser before committing funds for investment. When investments are made in overseas securities, movements in exchange rates may have an effect on the value of that investment. The effect may be favourable or unfavourable. ■

Nick Murphy
Head of Charities, Smith & Williamson

CURRENT ISSUES IN CHARITY REPORTING

The charity reporting framework is constantly evolving, and despite a moratorium on major changes to the charity SORP, modifications are in the pipeline. We invited Helena Wilkinson to provide a round-up of the key issues, and her insight into what makes a compelling annual report.

One of the areas that charities have most freedom and ability to impact on the reader in a set of statutory accounts is the Trustees' Annual Report. This should be the strongest part of the statutory accounts as it allows for the charity to explain why the charity is necessary.

So it should aim to answer the following points really clearly:

- Why do you exist?
- What do you do?
- How do you make a difference?

Many reports do not address these aspects of their organisation and their work, and with the transparency agenda and the need to build trust and confidence in charities, it is crucial that charities are much more accountable.

Many trustees' reports assume this is addressed through listing endless reams of their achievements which lack context and explanation of why they are important and how they delivered the strategy.

I am passionate about influencing change in charity sector reporting to be more interesting and insightful for the reader. Although it is often overlooked by the sector, the trustees' report is a good indication of the financial management and a window into the strategic governance of an organisation. It very quickly demonstrates a well-run and well-planned organisation from one which appears to have a scattergun approach to its activities without clear direction or a plan of action.

A well-written, clear and concise story which flows through the reasoning behind the charity's focus and outlines its activities including the way they are funded and managed gives readers (and funders) confidence to invest in that charity's activities, whether that's in the form of volunteering or financial support.

Strategy and actions

When you write your trustees' report you should consider the reader of the accounts as a member of the public, so steer clear of acronyms and abbreviations and be sure to explain technical jargon. Clearly document the need that the charity is addressing, why it has chosen the activities it has and what effect these have had as a result. Always employ the 'so what' test. To pass the test the sentences need to give meaning. For example, 'we ran specific training for 100 specialist nurses in 'ABC''. This does not pass the 'so what' test as it gives no context to the implications and meaning of the activity. A better explanation would be: 'we identified that specialist nurses in 'ABC' required the latest training on innovative treatment and care to help with symptom and pain management. We provided training for 100 of a total of 700 specialist nurses in the UK. We aim to continue to fundraise the level of income required each year to keep these courses running and are keen for supporters to help us deliver this training.'

Reporting in this way helps to provide insight into the funding requirements and support needed which in turn helps with future fundraising applications.

Using narrative to explain the numbers

Furthermore, the detailed narrative in the trustees' report often describes activities and events which are not analysed elsewhere or cross-referenced with the numbers in the accounts. For instance, in the example, they would not have any expenditure identified for the training to which they referred. By not divulging the figures that tie to the narrative, the credibility of the narrative diminishes.

We also encourage clients to move away from only disclosing one charitable activity line as we believe providing more detail is more powerful in building a stronger picture of the wealth of activity undertaken and the way that this fits into the charity's purpose.

Criteria for success

One of the new requirements of the Charity Statement of Recommended Practice (SORP), is the need for larger charities (generally those with income over £500k) to disclose how the trustees have determined whether the charity is delivering against their strategic objectives. Charities are struggling to report on this aspect of the requirements and very few have managed to translate their strategy into coherent summaries. I believe that this is a crucial aspect of the trustees' report as it underpins good governance.

Charity Governance Code

This neatly brings me onto the Charity Governance Code – which is only in its third edition since it was created 13 years ago. Its focus is on board performance and improving governance of the charity sector. The Code not only suggests that each year the board reviews its own performance and that of the chair, but for larger charities it also recommends that an external review is performed every three years.

These reviews, to be undertaken each year and externally every three years, should encompass a review of the balance of skill on the board, their experience and knowledge, diversity, how those on the board work together and any other relevant factors which could impact on its overall effectiveness. The Code also suggests individual trustee performance in larger charities is reviewed annually. The reason for mentioning the Governance Code under reporting is to pick up on the suggested recommendations to discuss compliance with the Code in the trustees' report.

We expect to see more examples of such disclosure in the coming year for other charities to use as a guide on how they may wish to report. It will also be interesting to see how many charities choose to report on their compliance. One area of concern is how such information will be used by the press and the public if there is disclosure around areas of weakness or where there are areas of 'work in progress' in becoming compliant, so inevitably there is some apprehension about disclosure.

Remuneration policies

Another new requirement of the Charity SORP is that larger charities disclose their remuneration policies for senior pay – including at least the Chief Executive and, if desired, other members of the senior management team.

Having reviewed many sets of charity accounts in 2017 under the new reporting regime, it is becoming apparent that few charities are engaging with the spirit of the disclosure requirements. It is fast becoming a boiler plate disclosure format, and as such will become meaningless. Some charities are using this requirement to compare their median or highest to lowest pay ratio, as well as the way that salaries are determined within the organisation to demonstrate their governance and accountability.

Being prepared to disclose such information gives the reader the impression that the pay has been actively managed and is a thought thought-out process which the trustees are able to explain and justify. However, in general there has been an increase in the openness and disclosure of the exact pay of each member of the senior management team or at least the CEO.

For larger organisations, disclosure of the gender pay gap will also come into effect this year, therefore pay will continue to be an area of attention for the year ahead. With this in mind, I would encourage all charities to ensure that their policies are open, transparent and tailored to their circumstances and do not just pay lip service to the disclosure requirements.

New FRS 102 and Charity SORP

Having considered some of the aspects of reporting that are proving challenging, I thought I would conclude on forthcoming likely changes and requirements. We have received assurance that there will not be a new Charity SORP until 2022 or later, however the Financial Reporting Council issued a new FRS 102 on 15 December 2017, which although applicable to accounting periods commencing on or after 1 January 2019, will lead to changes to disclosures and reporting. The main changes affecting charities are:

Gift aid payments and tax: unless there is a legal obligation, Gift Aid payments made by trading subsidiaries of their taxable profits can only be accrued when paid (as are akin to a dividend) and cannot be classified as expenditure. This means that charities need to look at entering into deeds of covenant with their trading subsidiaries to create a legal obligation, and to be able to match the payment in the year the profits arose, regardless of when it is paid. However, for tax purposes you can use the tax advantage as if the payment had been made, so that the tax does not need to be accounted for; nor is there a need to show the deferred tax position. There will however be a need to adopt this element of the new FRS 102 early and disclose that this has been done in the accounts.

Investment properties and those occupied by other group entities: the undue costs or effort exception to valuation of investment properties has been removed as their fair value is readily available, even for part occupied premises, so investment properties do need to be shown at fair (i.e. market) value. However, properties occupied by another group entity can be treated as functional fixed assets in those accounts (as they are in the consolidated accounts), at cost less depreciation, rather than be recognised as an investment property at fair value in the subsidiary/charity, as is the case now. Again this element of FRS 102 can be adopted early.

Statement of cash flows: a net debt reconciliation is a requirement of the new FRS 102 when it comes into force.

Comparatives: any disclosures made under SORP will form part of the comparative information requirements, and all comparatives must be disclosed in full – including for example support costs, expenditure analysis, net assets and reserve fund movements.

Horizon scanning

Although there are no plans for a new Charity SORP, there are expectations that there will be information sheets issued amending parts of the Charity SORP requirements, and these must be followed.

A welcome change, expected to be issued in the middle of 2018 will be the removal of the requirement to disclose support costs within the accounts. When this information sheet is finally issued it may bring with it reduced disclosure requirements for a change!

The SORP Committee has also created working groups to look at other aspects of disclosure. Areas being considered are: tiered reporting, transparency, governance disclosure, and the needs of smaller charities. It is expected that there will be a requirement for charities to have a Key Summary Information section in their trustees' report, for which there will be suggestions around its contents but no mandatory requirements. It is also expected that another tier of charity size, and therefore reporting, will be introduced aimed at lowering reporting requirements for smaller charities and yet more disclosure on transparency and governance. The findings of these working groups and feedback on the SORP consultation undertaken in 2017 will feed into the new Charity SORP 2022. So hopefully little change in the intervening period, meaning no excuses for not reviewing and rewriting the narrative part of your statutory accounts in the meantime. ■

Helena Wilkinson
Partner, Head of Charities and NFP, Price Bailey LLP

A WELCOME CHANGE IS THE REMOVAL OF THE REQUIREMENT TO DISCLOSE SUPPORT COSTS WITHIN THE ACCOUNTS. WHEN THIS INFORMATION SHEET IS FINALLY ISSUED IT MAY BRING WITH IT REDUCED DISCLOSURE REQUIREMENTS FOR A CHANGE!

FINANCIAL SUSTAINABILITY

The tried and tested tools for safeguarding your charity's sustainability are no longer enough says Eliot Lyne. It's time we deployed some of the softer tools, like communication and honesty, and take the discussion beyond the SMT and board meetings.

Financial sustainability is, by definition, a subjective concept. The question every charity faces of whether their charity is financially sustainable is of ever-growing importance. Forecasts continue to indicate that the tenet 'the only thing that is certain is uncertainty' prevails.

So the days of financial sustainability being a fixed concept: job-done if you have 3 or 6 months operating costs in reserves, are well and truly behind us. Financial sustainability is dynamic, so the tools that we must use to achieve it must be suitably responsive. Some of these tools, such as producing a forecast are finely honed. Others, such as effective financial communication, may be somewhat dusty, rarely used and awkwardly wielded.

I think that the subjective nature of financial sustainability is important, but counter-intuitive to many finance teams. It makes you think. A high-performing finance team will understand and be able to communicate the benefits and drawbacks of the charity's operating model, its cash or reserves position; its key financial risks. This stuff doesn't come out of a system – sure, you can put together a spreadsheet or run the numbers through your forecasting tool, but ultimately financial sustainability is not a binary answer. So it follows that achieving it is not a binary project.

Yes, you need a set of numbers, which tell you where you are. Most finance teams will be able to do this (tick). You need to have a good understanding of the charity's operating model (getting harder, but probably still a tick – increasingly I see charities doing this, and linking with risk). All this is structural stuff though. It's the 'what' rather than the 'how', the 'doing' rather than the 'being'. And this is where it gets really interesting.

The 'doing' stuff is comfortable, we have been trained to analyse, respond, act. Cut some costs + increase the income = income and expenditure balanced – job done. It's a blunt instrument that swipes of the metaphorical SMT red ink! But hang on, that's all well and good on a spreadsheet, but how will it actually happen? It is a blunt instrument. You can't get the big mallet out when only fine adjustments are needed. We need to empower our staff to help us with this.

So how do we do this? Firstly, we need to communicate the financial message to empower our passionate staff to help steer the ship to safer waters. I think this is a really under-rated and under-estimated tool to help us become financially sustainable. A finance team is absolutely there to ensure that the charity stewards assets and complies with regulation, but it must be there to ensure that great decision-making is supported, and ultimately that the mission is fulfilled in the best way possible. And this doesn't just mean giving the CEO or the SMT the tools to make decisions, it means giving the whole organisation the tools to make better decisions. I've always taken the view that thousands of small, informed decisions are more effective than big bold strokes from the top.

I had one charity client, in the international development field, which had a problem with ineligible contract costs (requiring them to fund from dwindling unrestricted funds) on EU contracts. The leadership knew this and had told everyone to change. We produced some fairly simple messages which really communicated the impact, for example how many mosquito nets we could have afforded and therefore how many people we could have supported in malaria prevention.

Charity staff are a passionate bunch. If I'm a budget holder, for example a manager of a care home who cares deeply about the organisation that I represent, and you give me some information about the financial status of my organisation, I may well modify my decisions to spend money based on this. I feel better about doing my bit and my organisation saves a little money. Win-win.

I'VE ALWAYS TAKEN THE VIEW THAT THOUSANDS OF SMALL, INFORMED DECISIONS ARE MORE EFFECTIVE THAN BIG BOLD STROKES FROM THE TOP.

I've witnessed on many occasions a fear around communicating honestly. Things get dressed-up a little – 'looking-good' takes over; a 'car crash' at the SMT, becomes a 'wrinkle' at the board. One of the most memorable lines from a previous boss for me was 'what goes around, comes around, so don't try and play with honesty and integrity'. Wise words.

At another organisation, one of the first things I noticed was that there was little understanding in the organisation about the financial position. The result was that people were quite understandably spending money on things that didn't deliver what was needed. We addressed some of the structural issues, but also, and quite deliberately, set out some 'financial management principles'. This helped to change the tone around the finances. One of the principles was 'openness and transparency, delivering both good news and bad news on our finances'.

We started being honest about where we were. I talked about this to the SMT, trustees and wider leadership team – the reality, not the fantasy version. We acknowledged what wasn't working, which was really obvious to most people who appreciated the honesty. We followed up with monthly financial updates to the whole organisation. I even did a quarterly video blog to staff on the forecast results.

But to do this well, you need to connect it back to what the numbers are telling you. Phew, back to the safe ground of the 'doing'! But even here, we need to think about the message.

I continually challenge my finance teams to be able to explain the 'shape' of the numbers. It's a deliberately obscure request designed to kick start some right-brain thinking on how we are communicating the numbers. What are they telling us? What can I do with that knowledge? I no longer want to see the variance analysis that says 'the IT variance has been caused by a 10% increase in staff costs and a 15% increase in software costs'. Why? How? What is the actionable request here? As finance communicators we must sit on the other side of the message and be able to understand and, critically take decisions based on the information. After all, we're here to improve decision-making, right?

Financial sustainability is about much more than structural decisions, it's also about harnessing the full passion of everyone through honest, clear financial communication, and trusting them to do the rest. ■

Eliot Lyne
Interim Finance Director, RNIB
(Royal National Institute of Blind People)

SECTION 3: TECHNICAL INSIGHTS

CHANGES IN THE ACCOUNTING AND AUDITING ENVIRONMENT

A full revision of the charity SORP/FRS102 is not expected to happen until 2022. But incremental changes and clarifications will be implemented prior to that. Richard Bray, who sits on the Charity SORP Committee, is here to make sure that you have all the information you need to navigate the accounting and auditing framework.

When this update appeared last year it was unclear what 2017 would bring. Now we are in 2018, what has happened to the accounting and auditing framework that charities face? And, crucially, what practical difference do these changes really make?

Those of us who enjoy the technical challenges posed by developments in the accounting and auditing world always need to realise that others may not share our fascination! So my intention here is to focus on key changes that have the potential to make a difference. In other words, if you work in finance for a charity these are the changes that are most likely to affect you.

I will also explain how the Charity SORP is updated for the changes that are mentioned in this article.

The timetable for change

The original intention was that FRS 102, the accounting standard for which the Charity SORP provides guidance, would be reviewed and changed every three years. Last year there was uncertainty about how extensive the first review of FRS102 would be. The consensus has been that it makes sense for there to be a period of stability with this relatively new standard before there are further major changes. This Charity SORP Committee felt likewise. So although there was a major research exercise undertaken by the SORP making body carried out in 2016, this will only inform thinking for the next full revision of the Charity SORP, and this is unlikely to happen until 2022.

The significant changes to International Financial Reporting Standards that have been made since FRS 102 was issued (such as accounting for leases, income recognition and financial instruments) are therefore on the back-burner for charities. But they are unlikely to go away, especially, accounting for leases which is likely to eventually have huge implications for charities. If adopted, virtually any lease will need to be included on the balance sheet.

Any changes in charity accounting afoot?

So we can all breathe a huge sigh of relief? Well, not quite!

FRS102 will be amended and clarified in a number of areas to allow for 'incremental improvements and clarifications', which might be thought of as little more than general housekeeping. These changes will be introduced for accounting periods beginning on or after 1 January 2019. But you can introduce them earlier if you like, as long as all of the changes are introduced in one go.

However, the subtlety here is that a 'clarification' rather than an 'incremental improvement' needs to be introduced immediately. The logic being that this is what you were always intended to do.

This means that there are some changes that need to be introduced now:

1. Prior year comparative figures

The first is for comparative figures. It may be that you have complied with this requirement already but many have not, largely because it does not seem to make sense to many of us. But the Financial Reporting Council (FRC) has confirmed that where figures are required by the Charity SORP there need to be comparatives in all cases. This includes, for example, the funds statement i.e. there needs to be a comparative for each type of fund as well as a total. This will lengthen many sets of accounts and seems to run counter to the FRC's intention to avoid 'clutter' (or unnecessary disclosure) in the accounts. I hope that eventually this will be changed but for now we have no choice but to comply with this requirement.

2. The treatment of Gift Aid payments by companies owned by charities

In 2017 the FRC issued a separate exposure draft on payments by subsidiaries to their charitable parents (known as FRED 68). In one sense this is not a charity accounting issue, but it is an accounting issue that significantly affects charities.

It was acknowledged that the accounting treatment of Gift Aid payments by charity trading subsidiaries varied and seemed to be more a function of who your auditors were as much as anything else. As a result, the FRC put forward proposals to end the inconsistency. These required that a Gift Aid payment could only be accrued in a charity's trading subsidiary when there was a legal obligation to make the payment, for example a deed of covenant in place. It could not be accrued if there was only a constructive obligation for making this payment – essentially only a past pattern or practice of adopting this practice.

As a quid pro quo, the FRC will allow the trading subsidiary to not accrue for the tax that is theoretically due where the Gift Aid payment cannot be accrued. This proposal can be adopted early and without needing to adopt the other Charity SORP changes.

These proposals received a mixed reception, however the FRC decided to go ahead with the proposals with little change.

The FRC considers that when a Gift Aid payment can be provided for is a 'clarification' rather than new guidance. As a result, they expect this treatment to be applied immediately. There has been a lack of guidance from the FRC about how they expect these proposals to be implemented. It can only be inferred that where (a) Gift Aid payment is judged to be material and (b) no deed of covenant is in place, the accounts will need to be restated with a prior period adjustment. This is a complex area and it is vitally important that any charity with a trading subsidiary speaks to its auditors at an early stage about this.

The other very practical point is that charities need to consider whether their trading subsidiary(ies) ought to put a deed of covenant in place as soon as is practical to create a legal obligation to make a payment. An alternative might simply be to make Gift Aid payments in the accounting period but these would need to be based on estimated profits.

As already mentioned, most changes in the Charity SORP Update Bulletin are incremental improvements rather than clarifications and will not need to be adopted for some time.

The changes include:

- The 'undue cost or effort exemption' has been removed. This is particularly relevant to any charity that has investment property. Where there is mixed use of a property, the element that is an investment will normally need to be disclosed at fair value rather than cost. Helpfully, there will be an option to include mixed use property at cost where the property is used by an entity in the group. Whilst this may require extra expense it is always important to remember that the FRS102/ Charity SORP requirements only apply to material items in your accounts. And, although you may hold investment property rented out to a third party, it may not be necessary to fair value it.
- Cash flow statements will need to include a 'reconciliation of net debt'

It is also important to encourage those who prepare charity accounts to refer directly to FRS102, as the Charity SORP is not entirely a 'one stop shop'.

How updates to the Charity SORP are implemented

An existing Charity SORP can be updated by means of an "Update Bulletin" which will take into account any relevant changes to FRS 102 or the Charities Act.

Update Bulletin Number 1 was issued in 2016 and a second one will be issued in 2018. The existing Charity SORP should be read in conjunction with these bulletins. It's likely that the second edition of the Charity SORP will be issued incorporating these changes, but in the meantime, don't make the mistake of thinking that the SORP you downloaded a while ago is complete – you need to take the bulletins into account.

Alongside these are Information Sheets which provide clarification of interpretation of the SORP or FRS 102. These are more advisory in nature but should be taken into account when preparing accounts. An information sheet was issued by the SORP making body in April 2017 and is available on the SORP Microsite. Preparers of accounts should ensure they are familiar with it. One very important point it highlights is the need for fundraising charities in England & Wales (subject to size) to now include in the trustees' report the disclosures required by the Charities Act 2016. A difficult issue here is the disclosure of' 'complaints'. This is a sensitive area, especially as complaints are not formally defined.

Which brings us to audit developments…

SECTION 3: TECHNICAL INSIGHTS

REPORTING MATTERS OF MATERIAL SIGNIFICANCE INEVITABLY RAISES ISSUES OF CLIENT CONFIDENTIALITY. SO IT IS IMPORTANT THAT YOU HAVE AUDITORS WHOSE JUDGMENT YOU TRUST ESPECIALLY WHEN THE ADVICE FROM THE REGULATOR IS 'WHEN IN DOUBT, REPORT IT'.

Changes to guidance on charity issues for auditors

The FRC have revised 'Practice Note 11 The audit of charities in the United Kingdom' – referred to more often as PN11. This is a little like the Charity SORP for auditors. The revision includes changes since the previous update in 2011. This includes: a new Charity SORP based on FRS102; the reporting of material matters to the regulators (which I mention below); and the continuing fallout from the collapse of Kids Company on the issue of how auditors should approach whether a charity is a going concern.

There is also a section on 'other reporting information' which covers the auditors' responsibilities in relation to the trustees' report. This could well be a topical area and some suggest that auditors' work in this area will increase with the potential for increased fees. This really should not happen.

Reporting matters of material significance

These are matters that need to be reported directly to the Charity Regulators without recourse to the charity. This inevitably raises issues of client confidentiality and when it should be breached due to a regulatory need. So it is important that you have auditors whose judgment you trust especially when the advice from the regulator is 'when in doubt, report it'.

Reporting matters of significant importance now includes a qualified audit opinion (including an emphasis of matter) and conflicts of interest that have not been managed appropriately or where related party transactions have not been reported correctly. Other issues that need to be reported include serious breaches of internal controls, misapplication of funds, and various kinds of illegal activity. The requirement to report is not limited to financial matters and can include evidence of significant risk of abuse or mistreatment of beneficiaries that the auditor/ examiner becomes aware of during their work.

The independence of auditors

As a final thought, the FRS102 issued a revised ethical standard for auditors in 2016. This requires non-involvement in management decision-taking including the auditor 'Taking responsibility for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework.'

Many of us can rely on our auditors to inform the more complex aspects of our accounting. This may indicate a journey where auditors may become less inclined to do this in future. This could be a double edged sword where either a charity has more freedom to present its accounts as it wishes, or feels that it has less support in this area. ■

Richard Bray
Finance Regulatory & Taxes Manager, Cancer Research UK

HR AND EMPLOYMENT ISSUES, OPPORTUNITIES, AND CHALLENGES

Charities stand apart in attracting talent, through purpose, mission, and operating to serve a common good, says Peter Cheese. The HR and finance functions play a key role together in getting the basics right.

To coin a rather clichéd phrase, it's never been more true that people are our most important assets. Even with growing applications and use of technology, most work is done by people, and innovation and creativity, empathy and collaboration are all vital and essentially human aspects of any organisation. As the world around us changes at a seemingly ever faster pace, our ability to recruit, retain, develop, motivate, align and support our people is even more essential to achieving our purpose and mission as enterprises of all kinds.

The third sector consists of a very wide variety and number of organisations, but they are all principally people businesses and rarely have significant capital assets that can drive long term value. People are the beginning, middle and end of the value chain.

But people also represent risk. Most businesses today have challenges with skills shortages, staff turnover, engagement and productivity. More than that, people's behaviour and the decisions and actions they take are becoming more and more visible. The corporate scandals from which the charity sector is far from immune, have put employee behaviours and organisational culture in the spotlight. Public expectation of the third sector, makes the recent issues brought to light from some of the largest and best known charities, damaging to the whole sector.

YOUNG PEOPLE IN PARTICULAR ALIGN TO WIDER PURPOSE, AND THERE ARE MANY BUSINESSES TODAY ACROSS ALL SECTORS RE-EXAMINING THEIR OWN PURPOSE AND MISSION.

We are in times of significant change and demand, so how we understand our people, our organisation and its dynamics, and the context in which we all operate, is critical. Charities are mostly subject to the same regulatory frameworks and expectations of commercial businesses for greater transparency and reporting, including incoming regulation on gender pay gap reporting, the Apprenticeship Levy and GDPR.

Yet historically, despite describing people as assets and resources, our ability to measure, value, and gain insight and evidence on people and the organisation has been poor and inconsistent. This is a business challenge as much as it is a specific challenge for the HR function, and is an important shared agenda for both the finance function and HR. Managing risk, providing for good governance and oversight, and driving long term sustainable value are all dependant on our ability to properly understand our organisations and people.

The nature of our workforces, their demography, the different ways in which people work or are contracted, are all essential foundational elements for understanding any organisation. Gender pay gap reporting, which applies for all UK entities with more than 250 employees, will become a regular feature of annual reporting and should be seen as an opportunity to strengthen internal understanding and disciplines in the most basic area of inclusion.

Other regulatory change aims to provide more opportunity and open up different routes in to work for wider cross-sections of society. The Apprenticeship Levy, although a very blunt instrument, is challenging many businesses to look more at their approaches to training and staff development.

Beyond the understanding of our workforces, we also need insight on how it is changing. Staff turnover rates, recruitment statistics, absenteeism rates all provide insight and pointers to areas of risk or where deeper problems may lie. But the hardest area to understand for any organisation is its culture. It's here that the deepest challenges lie for leadership and those with oversight and governance responsibilities.

Culture is not a single thing, and it can be manifested through sub-cultures within different parts of an organisation. Culture is what sets the tone, how decisions get made and behaviours are set. Rules and policies can only manage risk and outcomes so far. Too many, and the focus of action becomes too centred on compliance and not on responsibility or accountability. Positive cultures allow trust that behaviours and actions will be consistent with values, and individuals behave consistently even when no one is checking.

Most would say that culture starts with tone from the top – how leaders consistently walk the talk, and there is certainly little more damaging than leaders who break trust in acting outside the values they might espouse. Values and value statements are typically how organisations describe the behavioural norms they aspire to. But unless reinforced through people management practices, from recruitment and induction, to performance assessment and reward, it is unlikely to be sustained. Employee surveys are one of the most important tools in understanding how people view the organisation, its leadership and culture, and can provide important insights.

A powerful driver and motivating force for any organisation is its purpose. Young people in particular align to wider purpose, and there are many businesses today across all sectors re-examining their own purpose and mission. A purpose is a strategic and long term mandate for what we do, and for charities in particular, purpose is a driving force. It should be a primary attractor for people to join and to engage them in meaningful work, often when they may be able to earn more in other sectors or organisations.

Charities will always be part of the wider industrial and social landscape. They can stand apart in attracting talent through their purpose and mission, and in how they operate to serve a common good and long term thinking. But they need to ensure the basics are right, and addressing the issues of behaviours and cultures alongside good management and operational disciplines will define success. HR has an important role to play, but it has to step up too. It needs to have the confidence to challenge, and to support managers and employees at all levels. Finance needs to be a key partner in this journey.

Peter Cheese
Chief Executive, CIPD

PROTECTING PENSION SAVERS IN A CHANGING WORLD

Amid reports of another high-profile corporate failure, and the inevitable impact on members of its defined benefit pension scheme, there are positives: auto enrolment has been a great success and an increase in contributions is in the pipeline. Protecting savers is a key priority for The Pensions Regulator says Fiona Frobisher, its Head of Policy, and it is working to achieve this through better guidance and a more robust approach to its regulatory role.

Protecting pension savers remains a hot topic amongst policy makers and media commentators, partly as a result of some recent high-profile corporate failures.

I realise that many employees of charity organisations are members of defined benefit (DB) pension schemes and may be worried by these headlines. But before I talk about these issues I first want to emphasise the good work going on to encourage more people to save into a pension and to ensure savers receive the benefits they deserve.

There is a widespread acceptance that the automatic enrolment programme – to enrol workers into a workplace pension – has been a fantastic success, resulting in the 'social norming' of pension saving.

In February, our figures showed that one million employers have met their auto-enrolment duties, resulting in more than 9.5 million more people saving for retirement.

And the policy does not stop there. This April will see the start of increased pension contributions for employers and their staff – inlcuding those in the charity sector.

The total minimum contribution (workers and employers combined) will rise from 2% to 5% and then to 8% in April next year. This is a key element of the policy to help people build the level of retirement they are likely to want.

Increasing minimum contributions should be a straight forward task for employers but there are a number of checks they will need to make and we encourage them to start in good time.

Our website, **www.tpr.gov.uk/employers**, provides useful information alerting employers to what they need to do and I encourage people to view that.

While there is no legal duty to tell staff about the increase in contributions, we encourage employers to have ready the information they need about their staff's workplace pension and how it is changing so they can have constructive and informative discussions.

Automatic enrolment is creating a new savings culture and the increase in contributions is an important part of the policy to boost retirement outcomes.

We know most employers want to do the right thing for their staff and we are here to help. However we will take action if an employer is not meeting its responsibilities. Failing to make and maintain the correct pensions contributions could result in a fine or court action.

Pension providers have a duty to tell us if an employer is not maintaining the correct contributions and staff can also use our anonymous whistle-blowing service if they are concerned the correct payments are not being made.

Protecting savers

One of our key statutory objectives is to protect members' benefits, and we take this role very seriously. The pensions landscape has transformed in recent years and we need to change too to make sure people's financial futures are protected.

We are being clearer in our expectations, acting more quickly when we see a problem and being tougher on those who put people's pensions at risk. We are making greater use of rarely-used powers and using powers for the first time.

That means fines for employers who don't give their staff the workplace pensions they are entitled to, fines for those trustees not getting the basics right and bans for unfit trustees.

But it is more than simply using our powers when things go wrong. We are also working to improve standards amongst the trustees who manage pension schemes so that they are fit for the 21st Century.

Trustees are responsible for making sure pension schemes are run well, so it's vital that they are up to the job. If they aren't, it can put people's pension savings at risk. Trustees remain responsible for the running of their schemes even if they delegate some of the work to advisers or contractors.

We want trustees to be asking themselves tough questions – are we complying with the basics? Do we need to seek out independent or professional advice? Is our scheme sustainable? Is it sustainable for the employer too, or do we need to start thinking about consolidating our scheme? They are difficult questions, but they need to be asked.

And to help them improve, we are supporting trustees with guidance and tools, such as our free toolkit – **www.thepensionsregulator.gov.uk/trustees**.

As I have mentioned, automatic enrolment has resulted in millions more people saving into a pension and the vast majority are doing so in multi-employer schemes known as master trusts.

We recognised early on that master trusts had different drivers than traditional schemes sponsored by a single employer, and that they could bring new risks to millions of members' benefits. So we worked closely with the government on a new Act which puts in place a tougher set of standards which schemes must meet in order to operate within this market.

For the first time we will have the power to authorise and de-authorise master trusts which fail to meet the new standards, thus creating a safe space for savers who are doing the right thing to save for the future.

The future of DB funding

Few can have failed to notice media coverage of big-name corporate failures such as BHS and Carillion, and the subsequent concern about members of associated DB pension schemes.

Such cases are of course very concerning for those involved, and they highlight why the government established the Pension Protection Fund to compensate people whose employer is no longer able to sponsor their workplace pension scheme.

However, our analysis shows us there is not an across-the-board problem with the affordability of defined benefit schemes. There are undoubted economic challenges, such as low interest rates, but their impact on a particular scheme will depend on the circumstances of the scheme and sponsoring employer.

The current regulatory framework provides considerable flexibility and deficit recovery plans can be tailored to meet the specific needs of the scheme and sponsor, including the employer's plans to invest in sustainable growth.

We have been clear in our code that we interpret sustainable growth widely to include the business plans and objectives of the charities you represent.

In our view, the flexibility available to DB pension schemes and their sponsors means that over the longer term most employers will be able to pay members their promised benefits. However, circumstances and expectations change, and as new concerns are raised, it is right that the framework and associated regulatory regime should be kept under review. We await with interest the Department of Work and Pensions White Paper on the future of DB pensions in the spring.

Last year we responded to the DWP's green paper on this issue, setting out what we believe could make the framework more effective. Our response (which can be found on our website) looks at three areas: scheme funding and clarifying what we expect schemes to do; planned corporate transaction; and information gathering.

Overall, the safety of member benefits remains a key priority for us, and we fully support other initiatives to improve outcomes for savers, such as plans for a pensions dashboard, and the ongoing fight against pension scams. ■

Fiona Frobisher
Head of Policy, The Pensions Regulator

UPDATE ON THE CHARITY GOVERNANCE CODE

...AND TIPS FOR HOW IT CAN HELP BOARDS TO BETTER MANAGE RISK

Launched last summer, the new Charity Governance Code has been welcomed with open arms, and it's expected that nearly half of charities surveyed will have adopted the Code by the end of 2018. Chair of the Code's Steering Group, Rosie Chapman, discusses how trustees can use it to be more effective, especially when it comes to managing risk.

An enthusiastic welcome for the new Code

Following consultation, the new Charity Governance Code was published last July. It is overseen by a steering group of sector infrastructure bodies and umbrella bodies, and I am the independent (in all senses!) chair of that Group.

The publication of the new Code aims to encourage discussion and debate about the Code itself; what the standard of governance should be that charities should aim for in the coming decade; whether charities need to make a measurable shift, and how the Code can be used to raise the bar.

I have been delighted with the overwhelmingly positive response of the sector to the refreshed Code, and by the backing it has received from the Charity Commission, the government; and the House of Lords.

Many charities have said that they have already adopted or are planning to adopt the new Code. Early adopters include:

And a survey of charities by the audit and tax advisers RSM last autumn found that 48% of charities responding to the survey expected to voluntarily adopt the Code during 2018.

One of the things that we have been keen to stress is that the Code is entirely voluntary. Because it is voluntary we do not use the word 'comply' when talking about the Code. Instead the Code says that charities should either 'apply' the various areas of recommended practice or 'explain' what they are doing instead.

The Code is also aspirational, and it may be a stretch for some charities to achieve some of its recommendations straight away. This is intentional as it is intended as a tool for continuous improvement towards the highest standards, rather than a simple 'audit'. We therefore expect that how charities use the Code will evolve and change as they become more familiar with it.

> THE CODE IS A WAY FOR THE SECTOR TO DEMONSTRATE THAT TO THE PUBLIC AT LARGE AND TO ACT AS A REFERENCE POINT FOR BOTH BOARDS AND EXECUTIVES TO DEMONSTRATE GOOD GOVERNANCE.

For example, some charities have already told us that they would like more advice and guidance on:

- How they should describe how they are using the Code in their Trustees' Annual Report. (In response, I have encouraged the Steering Group to be early adopters, so it will be worth looking at their reports, as well as those of the early adopters I've highlighted.
- What a charity should include in its annual description of what it has done to address board diversity and the charity's leadership and performance against its diversity objectives; and
- The form and content of the board effectiveness reviews.

Our plans for this year are therefore to put the Code on a more sustainable financial footing, so that we can provide additional guidance and support for charities using the Code as required and, more generally, continue to raise awareness of the Code and keep it up-to-date.

The Code and risk management

As risk management and oversight is one of trustees' most important responsibilities the Code has a section on 'decision-making, risk and control'.

The Code also helps charities to frame their thinking about risk and sustainability in relation to having the right people, culture and processes.

Having the right people

Ensuring the right people are in place to properly consider the charity's approach to risk is the key. Ways to ensure that this happens might include, for example, using the Code's recommendation of a skills audit to proactively seek trustees who are comfortable with thinking about risk and innovation. It might also prompt thinking about how to attract a diverse group of trustees. This may include looking for people who are intellectually curious to sit on an audit committee, and not just appointing people with technical skills.

Having the right culture

The Code emphasises the importance of a productive culture and highlights the value of constructive challenge. One interpretation of this for example is creating an environment which does not allow dominant personalities around the table to sway board discussions about risk and the charity's risk appetite.

Having the right culture is also important when thinking about robust management of a charity's resources. In particular, the Code emphasises that the risk of being over-cautious and risk averse can be as problematic as taking insufficient account of potential risks. Often the greatest danger can come from a combination of smaller, isolated threats, which are under the radar but may develop into strategic problems for the charity.

This is addressed in the Code which asks trustees to consider the cumulative effect of risks, not merely individual risks in isolation.

A board needs to have the right culture in place which enables trustees to have a 'grown-up' conversation about their tolerance levels for specific and for combined risks.

Trustees are ultimately responsible for risk management in their charity, and this means that they need to have risks brought to their attention in order to make effective decisions. In many of the worst cases of mismanagement in charities, boards have not been given the information they need about the risks they face, and this has led to poor decision-making.

In order for this to happen, staff must feel empowered to communicate bad news without the fear of blame, and trustees should promote a culture which encourages risk-event reporting and whistle-blowing, as well as learning from mistakes and near misses.

Having the right processes

The Code recommends that the board carries out an annual review of the board and individual trustees to discuss its effectiveness, its ability to work together as a team, its motivations and expectations. Such a discussion could align with the board's consideration of the strategic risks that it is facing.

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The recommended external review of board effectiveness every three years could also consider how the board approaches risk.

More specifically, the Code recommends that the board carries out a regular review – at least once a year – of the specific and cumulative effect of the risks it faces, as well as its process for identifying, prioritising, escalating and managing risks, and the internal controls associated with that process. In some cases where charities are operating in very volatile circumstances it may be necessary to review these risks more regularly.

The process for how the board considers risks must also strike a balance between on one extreme being too granular and at the other being too vague.

In some cases, trustees can become distracted from their core duties by getting bogged down in operational matters (getting in amongst the weeds). It is also common for executives to become overly protective of their own power and hide risks that trustees need to consider for fear of interference and scrutiny.

To help get the balance right, some boards who have separate audit committees ask that the committee carry out the more deep dives, and to provide assurance to the board on those areas.

Boards should be assured that the charity is managing its key risks in line with the board's overall appetite, and not overly rely on monitoring in mitigation.

Finally, the Code prompts boards to ask the 'right' questions to help think about its strategic risks.

These include:

- reviewing whether its income sources and business model are sustainable in the short, medium and long term; and
- considering the benefits and risks of partnership working, merger or dissolution (which might also include demergers and spins offs).

We know that the charity sector is under even more pressure to not only manage risk but to be seen to be managing risk. High-profile closures of charities accompanied with negative media headlines have fed into concerns about governance. In my experience, most charities are well-governed and are trying to do the best they can to work in a challenging environment. The Code is a way for the sector to demonstrate that to the public at large and to act as a reference point for both boards and executives to demonstrate good governance.

The Code has to evolve with the sector and I look forward to seeing how charities use it over the coming months and years ahead.

Find out more and download the Code, free of charge: ***www.charitygovernancecode.org/en***

Rosie Chapman
Chair, Charity Governance Code Steering Group

ARE YOU DOING EVERYTHING IN YOUR POWER TO PREVENT YOUR CHARITY BECOMING A VICTIM OF FRAUD?

Fraud is now estimated to cost the sector a whopping £2.3bn. That's £2.3bn of hard-earned donated income which is being syphoned off from funding vital services to beneficiaries. It's time to face it head on, says CFG's Heather McLoughlin. The good news is that CFG can help.

To celebrate CFG's anniversary, we decided to look forward to the big challenges that are facing the charity sector. Sadly, one of the biggest of these challenges is fraud.

While charities might think that fraud is not a major risk for their organisation, figures show that fraud is actually increasing in the charity sector, from £1.9bn in 2016 to £2.3bn in 2017[1]. The majority of this fraud is attributed to fraud through procurement processes, rising by an estimated £400m to cost the sector £1.16bn. As charities increasingly rely on procurement as a large source of income, without action, it is likely that this figure will rise accordingly.

WE KNOW THAT TALKING ABOUT FRAUD CAN BE SCARY, ESPECIALLY FOR THE CHARITY SECTOR WHERE ORGANISATIONS ARE OFTEN RELIANT ON THE GENEROUS DONATIONS FROM THE PUBLIC FOR A LARGE PROPORTION OF THEIR INCOME

Recent cases in 2017 (including a high-profile Red Cross case to a targeted malicious software attack at hospices in Manchester) have shown charities can be particularly vulnerable to the risk of fraud. Fraudsters are not deterred from targeting an organisation that works for the common good. If fraudsters have a means, they'll find a way.

Both the government and the Charity Commission are starting to realise the importance of fraud in the sector, along with cybercrime – the two are commonly linked. Fraud isn't going to go away and for charities, sticking their head in the sand is not an option!

As part of CFG's new strategy we've placed a great emphasis on stepping up and leading the way, and tackling fraud is a great place to start. We know that talking about fraud can be scary, especially for the charity sector where organisations are often reliant on the generous donations from the public for a large proportion of their income.

However, refusing to talk about fraud does not make it go away. Since we launched our Counter Fraud Campaign, we've often talked about how important it is to have good controls, culture and communication about fraud. These are all areas that charities can find challenging. The charity sector, more than any other sector, relies on trust – among donors, volunteers, employees and beneficiaries – and a fraud that occurs (either through external or, worse, internal means)

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can be damaging both reputationally and financially to a charity. Charities are held to a higher standard than other sectors (the most recent research for 2017 puts public trust in charities fifth across public institutions) and therefore communicating about our weaknesses and mistakes can be daunting.

CFG's Counter Fraud Campaign has been working this past year to help support charities in developing good controls, a strong counter-fraud culture and confident communication on their work. As part of the campaign, we delivered two successful conferences where charities spoke about their approach to fraud and in some brave cases, discussed situations where their charity had been a victim of fraud. We've worked with some of the leading experts in the charity sector to help develop counter-fraud measures for charities. Just as charities are unique, so unfortunately, are their risks to fraud.

Our campaign also saw us launch our Counter Fraud Pledge. We developed a toolkit and guide for charities to help them understand the risks they face, and how they can put in counter-fraud measures.

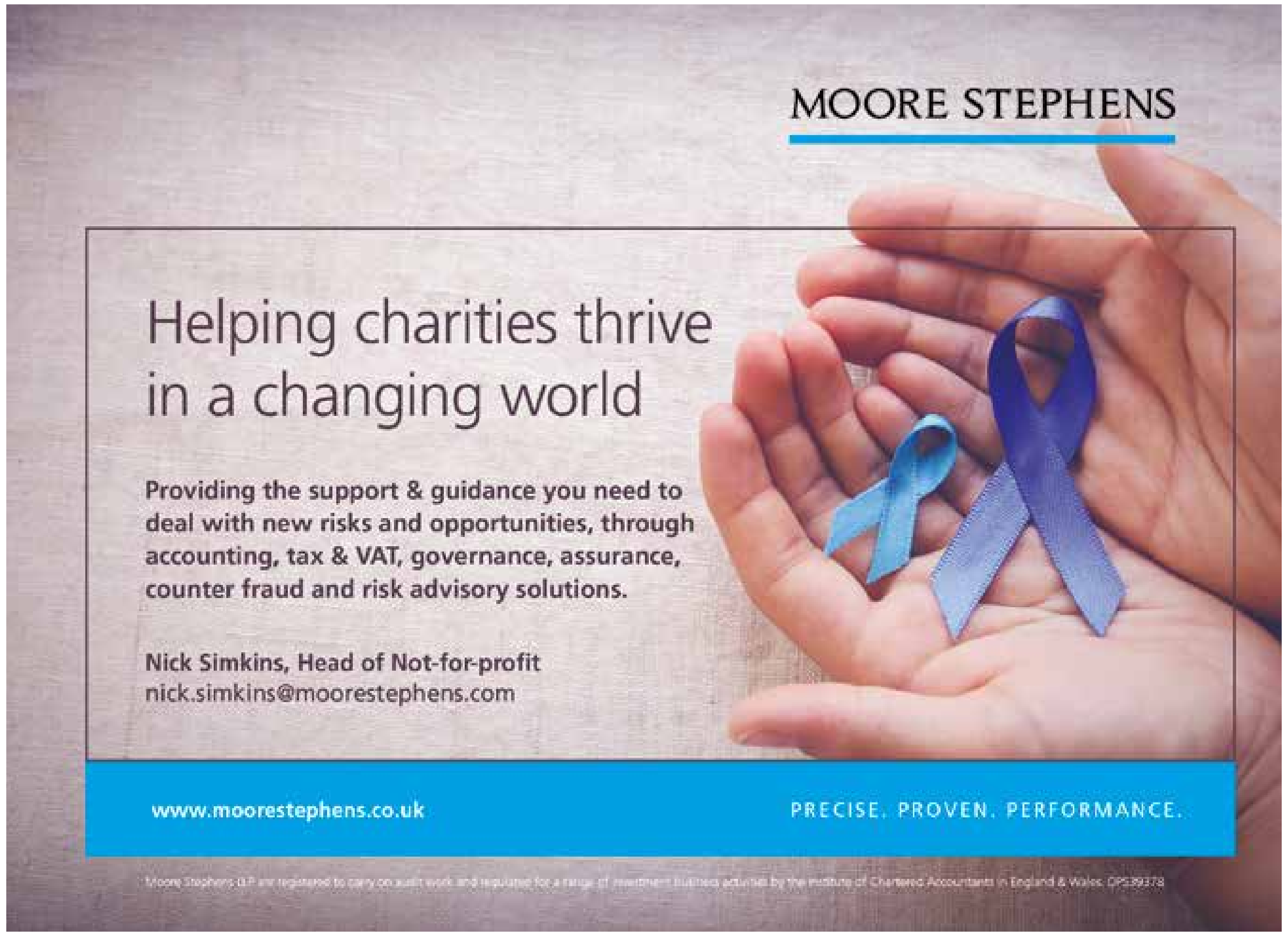
We've created a pledge badge which charities can use to show to their donors, beneficiaries, staff and any other stakeholders, that they take their fraud work seriously. 120 charities have signed up to the pledge, from large household names, to new small charities. If you haven't already, you can sign up of our website: **cfg.org.uk/fraudpledge**. Once signed up, we'll send you your counter-fraud toolkit. It really is never too late to start assessing the risks that external and internal fraud poses to your organisation.

With greater scrutiny than ever on the sector, and with charity budgets being more pressurised than ever before, it would be remiss of charities not to realise that establishing an effective counter-fraud plan is an essential measure in protecting the charity's assets, and ultimately the beneficiaries.

Fraud is not going to go away, and charities are going to be at higher risk. We will continue to lead the way in helping charities to develop effective measures to counter fraud.

[1]Annual Fraud Indicator 2017 – Identifying the cost of fraud to the UK economy: http://bit.ly/fraudindicator

Kate Bines
Head of Marketing and Communications, Charity Finance Group



TOPICAL ISSUES IN EMPLOYMENT LAW: THE HIGHLIGHTS OF 2017

2017 has been a year when employment law issues have frequently hit the headlines and the dust has as yet far from settled. Jane Klauber provides a brief review of developments over the past year and areas to watch in 2018.

Tribunal fees

The most surprising development was the decision of the Supreme Court in **R (on the application of UNISON) v Lord Chancellor 2017 ICR 1037** which abolished Employment Tribunal and EAT fees with immediate effect in July. The court was persuaded that the dramatic fall in the number of tribunal claims since the introduction of tribunal fees in 2013 was sufficient to conclude that a significant number of people who would have otherwise brought claims had been deterred, preventing access to justice. The figures from the Tribunals suggest an increase in claims of 62% since the abolition of fees and our anecdotal evidence supports a significant increase, including claims brought by lower paid individuals who are likely to have been deterred by the fees regime. While this may not be welcomed by employers, there was quite widespread concern that legitimate claims were not being heard and that the pendulum had swung too far. The challenge now is to deal robustly with unmeritorious complaints.

The gig economy

No one can have missed the cases brought by Uber drivers, Pimlico Plumbers and City Sprint Cycle Couriers. They all challenged their status as self-employed contractors and were successful in establishing worker status and the valuable rights attached to that status namely the National Minimum Wage and 28 days paid holiday under the Working Time Regulations 1998. In each case the Tribunals showed willingness to look behind contractual documentation at the reality of the relationship between the companies and the individuals despite considerable obfuscation in some cases. The cases do not significantly affect the conventional tests of employment status including personal service, mutuality of obligation, integration in the business and the level of control exercised by the employer. However the fact that workers were successful in these cases does not preclude decisions going the other way, depending on the business model of the firm, as the decisions are extremely fact sensitive. Some of the decisions are being challenged, in particular Uber is appealing the EAT decision and the Pimlico Plumbers case was heard by the Supreme Court in February 2018. The judgement is awaited.

SURPRISINGLY, ORGANISATIONS HAVE LARGELY NOT TAKEN ADVANTAGE OF THE OPPORTUNITY TO PROVIDE EXPLANATIONS FOR THEIR GENDER PAY GAP (WHICH MAY BE VARIOUS) IN THEIR SUBMISSIONS.

The Taylor review

The Taylor Review of Modern Working Practices was commissioned to consider the implications of new models of work including what has been characterised as the gig economy. It published its findings and recommendations in July 2017. The review contained a number of recommendations including that workers should be re-named "dependent contractors" and should be entitled to a written statement of terms and conditions, that there should be less emphasis on personal service to establish worker status and more on control and that the definition of self-employment should be the same for employment rights and tax purposes and that an online employment tool should be designed to determine employment status, similar to HMRC's employment status indicator. In relation to zero hours contracts, he recommended a higher rate of the National Minimum Wage be set for hours not guaranteed by the contract and that zero hours workers who have been in post for 12 months should have the right to request guaranteed hours. He further recommended that the pay reference period for the calculation of leave entitlement under the Working Time Regulations 1998 should be increased from 12 to 52 weeks for atypical workers and that individuals should be able to receive rolled-up holiday pay which is currently unlawful.

The government published its response to the Taylor review on 7 February 2018. The government considered that most of its proposals require further consultation and four consultations were launched on that date. In relation to employment status, the consultation will consider whether the existing case law on employment and worker status tests should be codified in legislation, whether the existing tests are still relevant and, in particular, whether less emphasis should be placed on personal service, whether the Taylor review's proposal that workers who are not employees should be renamed "dependent contractors" and whether the definition of working time for the purposes of the National Minimum Wage (NMW) should be amended. The government also intends to introduce an online tool to determine employment status. The following proposals were announced:-

- The right to a written statement of terms will be extended to all workers including agency workers. What information the statement should include was put out for consultation.
- The Low Pay Commission has been asked to consider the impact of introducing a higher rate of NMW and National Living Wage rate for hours not guaranteed by a worker's contract.
- The one week gap between assignments to preserve continuity of employment will be increased. The government is consulting on by how much.
- The pay reference period in the Working Time Regulations 1998 will be increased from 12 to 52 weeks to simplify the calculation of holiday pay for atypical workers.
- The government intends to legislate to increase pay transparency for agency workers.

Equal pay

The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 came into force on 6 April 2017 obliging employers with at least 250 employees to publish an annual report on the difference between male and female average pay and upload it to a government website. The deadline for publication was the 4 April 2018. Third Sector has reported an average gender pay gap in charities of about 8% based on a piece of research by a data scientist involving data from 568 charities, significantly lower than private and public sectors. In 20% of cases women were paid more on average than men compared to 11% across all organisations.

Equal pay also seems to have raised its head with Carrie Gracie of the BBC resigning her post as China editor alleging that she does not receive parity of pay with male colleagues. The EHRC are investigating her complaint.

Data protection

The case of **Dawson-Damer and Others v Taylor Wessing LLP (Information Commissioner intervening) 2017 EWCA Civ 74** concerned a subject access request under section 7 of the Data Protection Act 1998. The Court of Appeal clarified a number of points regarding the exemptions that are available to data controllers under the Act. It held that the exemption of legal professional privilege (between a law firm and its clients) should be interpreted narrowly and applied only to documents that are privileged for the purposes of UK law. It also ruled that the qualification to the obligation to disclose where providing copies of information to a data subject would involve disproportionate effort, applies to the effort in search for and retrieval of the subject's personal data as well as to providing copies. In many cases subject access requests are made as a prelude to litigation and a data controller may well be suspicious about the bona fides of the request they receive. However the court held that the purpose of a subject access request is not relevant and that in enforcing compliance a court should not refuse an order on the grounds that the data subject's motive is to use material in litigation.

No organisation can afford to ignore the new EU General Data Protection Regulation (GDPR) which will come into effect from 25 May 2018. The new regulation introduces significant changes including more stringent requirements for obtaining consent from individuals and an increased focus on privacy notices requiring data controllers to provide more detailed information to data subjects about the mechanisms and reasons for the processing of their data. The Data Protection Bill 2017-19 was published on 13 September and is intended to replace the Data Protection Act 1998. The Bill provides for the continued application of the GDPR when the UK leaves the EU.

Holiday pay

Right at the end of 2017 a case with huge potential implications was considered by the ECJ. In **King v The Sash Window Workshop Limited (Case C-214/16)** it was held that an individual who had been mis-classified as a self-employed contractor was able to claim holiday pay under the Working Time Directive going back 20 years to the commencement of his engagement, notwithstanding that at a point in the intervening period he had been offered and had declined an employment contract. The case potentially adds huge incentives for individuals to challenge self-employed status and we are already dealing with requests for back dated holiday pay albeit the UK court has not yet considered the decision. The case casts some doubt on the two year limit for back payments under the Deduction from Wages (limitation) Regulations 2014 and the normal 3 month time limit for a claim relating to a specific holiday. The case will now return to the Court of Appeal which will decide whether the Working Time Regulations which import the Directive into domestic law can be interpreted consistently with the ECJ decision.

Brexit

We cannot comment on the year or look forward without a mention of Brexit. Our advice remains that employment law is not likely to be the first target for wide-ranging changes but all organisations should be mindful of the likelihood of some changes ahead. ■

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GDPR: MANAGING EMPLOYEE DATA

Preparing for, and adhering to, the General Data Protection Regulation (GDPR) is wide-spanning across organisations, although often the finance function is responsible for leading on the issue. Buzzacott's Doug Farrow spells out what the new rules will mean for managing your organisation's employee data.

Coming into force in May 2018, the General Data Protection Regulation (GDPR) applies to all UK employers. Organisations need to ensure compliance, and with penalties of up to 4% of worldwide turnover or £20m (whichever is greater), as well as potential reputational damage, the significance of the GDPR cannot be underestimated. Data must also be collected for specific purposes, processed lawfully, accurately and fairly and must be retained in a form which could identify the individual for no longer than is necessary.

Personal data is any information related to a person that can be used to identify them. Employers gather and retain personal data in a variety of ways, such as information in personnel files, contractual forms, details of next of kin as emergency contacts, benefits applications as well as in email communication and computer log-in details. The need to protect data is even greater where organisations hold 'sensitive personal data' about individuals, such as information about disability or health issues, sexual preference, Trade Union status and criminal records checks, and as such, employers will need to ensure they have adequate security measures in place to ensure compliance.

Under the main principles of GDPR, the rules regarding the collection, use and retention of this personal data represent a major change.

Employers will not only need to say they comply with Data Protection legislation, they will need to prove that they are complying. It is recommended that employers first carry out an audit to document their existing policies and procedures relating to the collection, storage and processing of data, and how it is kept up to date. It is also good practice to maintain a list of those in the organisation who should have access to such data. This will facilitate the creation of data logs, showing the different types of data processing being undertaken, which will be necessary to ensure an organisation can prove that it is complying with the regulations.

For some organisations, it is mandatory to appoint a Data Protection Officer (DPO). The Regulations confirm that the following must appoint a DPO:

- Public authorities (except for courts acting in their judicial capacity).
- Where an organisation's core activities consist of regular and systematic monitoring of data on a large scale. This includes social media, online retail and search engine organisations.
- Where an organisation's core activities consist of processing a large scale of sensitive personal data and personal data relating to criminal convictions and offences. This includes healthcare providers, insurers, and government departments.

Even if you do not have to appoint a DPO, it is recommended that someone within the organisation is given responsibility for data protection and to ensure compliance with GDPR. They will have responsibility for communicating with the Regulator, will need to have sufficient authority and independence within the organisation to monitor all data processing and have experience of data protection legislation.

Employers also need to consider how and when they gather consent from an individual to hold and process data. Under GDPR, consent is defined as "any freely given, specific, informed and unambiguous indication of the individual's wishes". Affirmative action is required rather than a pre-ticked box on a form as consent. The concept of 'freely given' means that organisations will need to review their contracts of employment as it will no longer be compliant to have a clause within an employment contract saying that by signing the contract the individual also agrees to the processing of their personal data.

If an organisation wishes to rely on consent it will need to have a separate consent form for each time it wishes to process data. The form will need to explain the reasons for data processing, how the data will be processed, explain that the individual has the right to withdraw consent at any time, who the Data Protection Officer is, how and where they can complain to the Information Commissioner's Office (ICO), and ask for explicit consent by signature.

For most employers, it is advisable to consider the other lawful reasons to process individuals' data, rather than consent, as the basis on which they will hold and process data.

The range of lawful reasons are:

- Consent of the individual;
- Processing which is necessary to fulfil the obligations of a contract with the individual, such as payroll processing;
- Processing to comply with a legal obligation;
- Processing to protect the vital interests of the individual or another person;
- Processing which is necessary for the purpose of the legitimate interests of the charity or a third party acting for the charity, unless overridden by the interests, rights or freedoms of the individual; or
- Performance of a task carried out in the public interest.

Employers need to explain processing by use of a separate 'privacy notice' which can be issued to all existing employees and new employees when they join the organisation. The information required on a privacy notice is much the same as under current regulation, but will need additional information such as:

- details of the Data Protection Officer (or the individual tasked with data compliance);
- the legal basis on which the organisation will rely to process data;
- whether data is shared with third parties or transferred internationally;
- the purposes of data processing, how long the data will be retained;
- the individual's rights to access, modify or erase any personal data, to restrict any processing, to object to processing of their data, and to how data is sent to them or to a third party; and
- details of how an individual can complain to the Regulator.

Employee data should not be retained for longer than is necessary in a format that can identify the individual. Therefore, organisations will need to update current processes and ensure that employee data is reviewed for relevance on a regular basis. As an example, with recruitment, it is necessary to hold candidate information for a limited period, up to a maximum of six months, until it is clear that the unsuccessful applicant will not be offered a position with the organisation. There are often legal obligations which mean that personal data needs to be kept for a specific period of time, such as for tax purposes, compliance with FCA regulations on conduct records, to be able to provide Employer Liability Information under TUPE, or to maintain records to be able to contest legal action. These will continue to apply under GDPR, and may actually override GDPR requirements. Organisations will need to ensure that there is a process to ensure such data cleansing takes place.

A MAJOR COMPONENT IN THE GDPR IS THE INCREASE IN THE RIGHTS OF INDIVIDUALS TO HAVE ACCESS TO THEIR DATA, TO BE ABLE TO WITHDRAW CONSENT, AND TO AMEND OR ERASE PERSONAL DATA PROCESSED BY THE EMPLOYER.

It is the organisation's responsibility to ensure that all unnecessary data is either deleted or physically destroyed securely. There have been well-publicised, costly examples of organisations failing to dispose of personal information correctly and future financial penalties are likely to be higher.

A major component in the GDPR is the increase in the rights of individuals to have access to their data, to be able to withdraw consent, and to amend or erase personal data processed by the employer. Under the regulations, Subject Access Requests need to be resolved within a month rather than the current 40 days, and organisations will no longer be able to charge a fee for doing so. Other requests concerning data will need to be resolved in a similar timeframe. Employers will need to ensure that staff dealing with data requests are trained in the regulations and working to the new standards. Given the expected publicity from the ICO over the next few months, organisations should expect a significant increase in the numbers of Subject Data Access requests to line managers. Managers need to be trained to deal with such requests quickly before the new regulations come into force on 25 May 2018.

There has been much publicity recently about the increased dangers of cyber-attacks (hacking) on organisations and government agencies. Personal data breaches (a breach of security leading to the accidental or unlawful access to, destruction or misuse of personal data), will have serious consequences for organisations under GDPR. In the event of a data breach, employers must notify the ICO within 72 hours of becoming aware of the situation. Where it is likely to result in a high risk to their rights and freedoms, employees must also be notified 'without undue delay'. Failure to do so could lead to fines for failure to notify in addition to any fines related to the original breach. Therefore, employers need to assess their cyber security systems to protect all data processing activities and ensure they have a well-thought-out and tested data breach response plan. Such a plan should include staff training on what to do in such circumstances and template notifications to assist a speedy reaction.

Where aspects of data processing are outsourced, it will be necessary to ensure GDPR compliance is written within the contractual arrangements agreed with the outsourcer, and that the employer can audit the outsourcer's processes and procedures, including stringent obligations on them to report any data breaches back to the organisation. This would also need to appear on the Privacy Notice mentioned previously.

In September 2017, the Data Protection Bill was published; this aims to ensure that the rights, obligations, powers and other requirements set out in the GDPR are enshrined in UK law, even after Brexit. Although, to a large extent, the GDPR will harmonise data protection laws across the EU, the Data Protection Bill sets out the specific exemptions and additional rules that will apply in the UK.

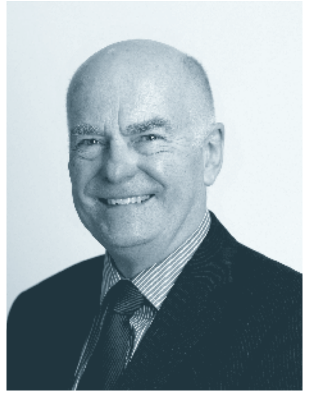
These include:

- Introducing similar exemptions to the application of the data protection principles to those that currently exist under the DPA (for example, to permit organisations to refuse to provide access to personal data where doing so would breach another individual's data protection right);
- Reducing the age of consent at which a child can give consent to the processing of his or her personal data in relation to the purchase of online services to 13 years (the age for giving such consent is set at 16 years under the GDPR);
- Allowing the processing of personal data relating to criminal convictions and offences, and sensitive personal data, in a wider range of circumstances than those permitted under the GDPR (e.g. to allow employers to carry out criminal records checks).

With the uncertainty surrounding the Brexit negotiations, some organisations may be adopting a 'wait and see' policy, in case the GDPR never actually makes it into UK law. However, with the publication of the Data Protection Bill, it is clear that the law is coming whatever happens with Brexit. Therefore, it is important that employers have plans in place for GDPR compliance now so they can ensure key people and decision makers understand the requirements and the impact GDPR will have on the organisation, its policies and procedures and its training requirements.

For further guidance and advice on GDPR tailored to your situation, the Buzzacott HR Consultancy team are able to help at ***enquiries@buzzacott.co.uk***

Doug Farrow
HR Director, Buzzacott



SECTION 3: TECHNICAL INSIGHTS

GDPR: FINANCIAL, DONOR AND BENEFICIARY DATA

Richard Evans highlights some of the key points from the ICO's 12 Steps Frameworks to help charities understand their responsibilities in regards to financial, donor and beneficiary data.

The General Data Protection Regulation (GDPR) and the contents of the Data Protection Bill will give individuals more control over their data. Therefore, charities will have more obligations, including a requirement to be accountable as a data controller and processer of data, and to demonstrate the accountability in documentation, policies and procedures.

The UK data protection regulator, the Information Commissioner's Office (ICO), will be given more powers to defend consumer interests. They can also issue higher fines, of up to €20 million or 4% of annual global turnover (whichever is higher), in cases of the most serious data breaches, aligned to the financial sanctions set out within GDPR. It also provides a right for individuals to claim compensation in relation to data breaches if they cause damage or distress.

The ICO has published its *12 Steps Framework* which should be a key reference point for charities in considering both project plans and ongoing actions in addressing the requirements of GDPR. Whilst not exhaustive, we have referenced elements from the framework in the sections below.

Effective policies and procedures documenting any processes involving personal data must be in place. In our experience, this is one of the key starting points, as many organisations either don't have an effective policy framework, or the policies have not been cascaded across the charity's network of staff, operations, groups and volunteers. This should set out on what basis data is collected, what it is used for and how long it is to be retained.

A further key challenge for many charities has been being able to understand what data is held and being clear as to how this is processed and shared with third parties. We reference thoughts in this area as a starting point below. The data audit is a key step in understanding what data is held, where it is and the basis on which it has been obtained. In addition, the charity needs to be clear where it is the data controller and processor, and if any third parties are holding such data on your behalf, such as a payroll or pensions provider, that they are clear with regards to their responsibilities.

Below we have looked at different key aspects of the requirements, referencing consideration in respect of financial, donor and beneficiary data:

Data Audit

Overall, there is a clear need to understand what personal data is held, covering manual and electronic records.

This may necessitate the completion of a data audit of all records, covering (but not limited to):

- **Financial** – Employee records, including salary, credit applications, pension records, beneficiary financial data, such as grants made, financial assessments for bursary/ grant purposes and or salary records.
- **Donor** – Supporter and fundraising data, including donation(s), support provided and any additional financial linked data, such as property.
- **Beneficiary** – personal data, including the duration of time that the records will be held for, any records which may constitute sensitive data, including data relating to children and medical conditions.

Privacy by design

GDPR makes privacy by design an express legal requirement. Previously this was only good practice. In respect of financial, donor and beneficiary personal data and the GDPR, a protocol needs to be clearly established for any key systems which incorporate personal data, such as payroll, CRM and project management systems. Any change in systems and the associated Data Protection Impact Assessment should also consider how the data is to be retained securely and for what period, including how the data can be accessed in the event of a subject access request.

Data collection techniques including cookies should be revised to ensure that excessive data collection is not occurring and that automated deletion processes are in place to remove personal data after a set period of time.

THERE IS A POTENTIAL MISPERCEPTION THAT UNDER GDPR CHARITIES CANNOT KEEP PERSONAL DATA. HOWEVER, IT IS IMPERATIVE THAT CHARITIES DO NOT DESTROY PERSONAL DATA/ EVIDENCE THAT THEY ARE LEGALLY OBLIGATED TO RETAIN.

Agreements with third parties should set out the liability and risk allocation between parties for these requirements, to minimise large-scale issues occurring.

Lawful basis for processing

It needs to be clear as to which of the six lawful bases the personal data is being processed. Examples of this are outlined below:

- **Financial personal data** – this is typically through the basis of fulfilment of a contract, as the personal data relates to employees and contractors.
- **Donor** – the most common route is through consent, with an affirmative "opt in" applied. It is key that an individual understands what the consent refers to, the use of their data and that this is reflected in the Privacy Notice.
- **Beneficiary** – this should generally be processed in accordance with consent, legitimate interest and vital interest principles. For example, a beneficiary may consent to the processing of provided personal data to enable receipt of services that a charity may provide.

Consent

If you rely on consent as a lawful basis for processing personal data, it needs to meet the GDPR standard on being specific, granular, clear, prominent, opt-in, properly documented and easily withdrawn. Areas requiring consent for the use of data should be clearly set out, including how the data is to be held, what it is to be used for and how long it will be retained.

For beneficiaries, where a legitimate or vital interest is the basis for processing, records should be maintained, to show that the charity properly considered the rights of data subjects. Charities should think carefully about how to gain consent from vulnerable beneficiaries who may not understand their rights under the GDPR. You may need to explain to them what the rules are and how it impacts them. This could mean ensuring the language you use is simple and clear for vulnerable beneficiaries to understand. This will ensure they are making informed decisions when they give you their data.

Children

GDPR introduces special protection for children's personal data, in particular commercial internet services such as social networking. Processing of data related to children is noted to carry certain risks, and further restrictions may be imposed as a result of codes of conduct. Organisations which offer online services to children and rely on consent to collect information will be directly affected and must ensure language is tailored for the target audience. Under Article 8(2) GDPR, charities will need to make "reasonable efforts" to verify that consent has been given or authorised by the holder of parental responsibility. However, charities will not need to seek the consent of parental figures when the processing is related to preventive or counselling services offered directly to the child. Children "may be less aware of the risks, consequences and safeguards" of handing over their personal data.

'Legitimate interests' as a lawful basis instead of consent could also be considered but should be documented. This will help ensure charities assess the impact of data processing on children and consider whether it is fair and proportionate.

The ICO has recently published further guidance to help organisations who process children's personal data under the GDPR. This guidance can be found at **http://bit.ly/ICO-children**

Reporting

The requirements in respect of reporting personal data (under GDPR) are broadly in line with the DPA. In general, the majority of financial reports completed for wider distribution are either anonymised (for example, payroll expenditure, fundraising pledges and actuals, research impact reporting) or have a degree of pseudo anonymisation applied (where employee/donor/beneficiary records are referenced in a report but these do not contain names/addresses) and as such, would require additional information in order to establish the individuals involved.

The policy and procedural framework should also be clear in this area – where the data is processed as part of the legitimate purposes of the organisation, this should be clear so that if there are any requests in respect of the 'right to be forgotten' that the requests can be refused or processed efficiently.

Disposal of beneficiary data

There is a potential misperception that under GDPR charities cannot keep personal data. However, it is imperative that charities do not destroy personal data/evidence that they are legally obligated to retain.

As such, a key upgrade point regarding GDPR is to ensure that there is a clear data destruction policy in place. This needs to be reviewed and brought up to date, and in respect of beneficiary data, detail what personal data is required to retained for legal and regulatory purposes. It is key that this is understood by relevant members of the charity (both staff and volunteers) involved in the processing of beneficiary data.

The subsequent disposal of beneficiary data should be in line with the policy framework in place, acknowledging the legal retention periods in place. Once disposed of, there should be assurances that the disposal process has been secure and monitored to ensure that data is not lost through either poor practice or an ineffective third party. ■

Richard Evans
Partner: Head of Risk and Assurance, Crowe Clark Whitehill LLP

GDPR: FUNDRAISING

The enforcement of the GPDR from May 2018 presents many challenges for fundraisers, but amongst them there are opportunities that could change the nature of the charity-donor relationship, says Kingston Smith's Dan Fletcher.

Back in the late nineties, the introduction of the Data Protection Act (1998) (DPA) brought with it many workshops, debates and articles on compliance. The General Data Protection Regulation (GDPR) of 2018 has created even more interest in the charity sector, not least due to intervention of the Information Commissioner's Office (ICO) in late 2016 when they started to fine charities for contraventions of the DPA. In contrast, the arrival of the Privacy and Electronic Communications Regulation in 2003 (PECR) wasn't felt quite as strongly in the charity sector. Somehow its relevance to this sector was missed.

Many of the conversations we have with charity fundraisers over data protection now revolve around compliance with PECR. Discussions also feature the ePrivacy Regulation that is being updated later in 2018 to take into account developments since 2003, like Twitter and WhatsApp. Charities have been encouraged to cut costs in their fundraising and 'go digital'. However digital fundraising relies on consent, where direct mail fundraising can use 'legitimate interest' to justify the communication. The GDPR certainly ups the ante over getting consent. It could be argued that the charity sector hasn't always had strong enough consent for its email fundraising communications over the past 15 years.

This situation is further compounded by charities not being able to email their supporter base to ask for permission to email them. Honda and FlyBe have already been fined heavily for this practice of marketing to gain consent for marketing. Having invested in digital data acquisition, charities generally no longer have postal addresses in their database. This means they can't even write to their supporters to ask for their communication preferences and permissions. After 25 May 2018, charities across the country will need to erase vast numbers of individuals' email addresses from their database because they won't be able to justify storing them.

The definition of consent

According to the ICO, consent is defined as: "any freely given specific and informed indication of his wishes by which the data subject signifies his agreement to personal data relating to him being processed", as per European Directive 95/46/EC, which is what the DPA is based on.

Regarding consent under the PECR, the ICO quotes the regulation as saying: "the [recipient] has previously notified the [caller or sender] that he consents for the time being to such communications being sent by, or at the instigation of, the [caller or sender]".

THIS NEW REGIME MAY BRING ABOUT A PARADIGM SHIFT. CHARITY FUNDRAISERS WOULD START FROM THE PREMISE THAT THEY NEED TO CAPTURE REAL COMMITMENT AND LOYALTY, NOT JUST PERSONAL DATA.

Does size matter?

Fundraisers specialising in approaching individuals often share the characteristic of being 'data hoarders' or 'data collectors', depending on your perspective. Their rationale is that it's counter-intuitive to throw away or erase data that might become useful one day. Identity is tied up in the size of the file. Direct marketing is a numbers game where quantity takes precedence over quality. The GDPR and PECR are, however, all about the quality of the relationship. The emphasis is on the basic privacy rights of an individual and their ability to decide what communications they receive and how.

So does it matter that, under the GDPR, charities will need to become better at respecting these data rights? Charities might find that their income goes down. They will be prevented from communicating with those not really wanting to be contacted, but still giving a donation because they don't like to refuse. However, this new regime may bring about a paradigm shift. Charity fundraisers would start from the premise that they need to capture real commitment and loyalty, not just personal data. Fundraisers should be good at this. They understand the passion that inspires people to give their own resources to help another human being or make the world a better place. They can articulate the case for donation and gain a true donor, not just a charity purchaser making a one-off payment they don't wish to repeat.

Perhaps the biggest implication of the GDPR is that it moves the focus of charity fundraisers away from mass marketing and shallow relationships. Instead, they engage in targeted, empathetic marketing that deepens the charity-donor relationship and creates a long-term partnership that pays for itself many times over. This will transform the fundraising sector and ensure that a repeat of the fundraising crises of 2015 and 2016 does not happen. ■

For more on the GDPR, see CFG's General Data Protection Regulation: A guide for charities. Free to download at **cfg.org.uk/gdprguide**

Dan Fletcher
Director (Fundraising), Kingston Smith

04 STRATEGIC LEADERSHIP

IN THIS SECTION

DE-RISKING INNOVATION TO BUILD A SUSTAINABLE FUTURE

In a traditionally risk-averse sector, we can adopt agile working practices and a portfolio approach to innovation to mitigate against perceived failure. But the biggest risk is allowing too much caution to be the enemy of long-term sustainability and progress, argues Thea Dexter from Good Lab.

We could be forgiven for thinking safety lies in doing things the way they've always been done, especially where donors' money is concerned. Yet for charities, the ability to evolve is more important than ever. Fortunately, there are ways to increase efficacy and decrease risk as part of innovation or product, service and brand development.

Innovation and best practice

Collaboration is one of the most powerful ways to decrease risk. The diversification gained by convening more parties around a table to own a challenge means the risk and reward are shared, but it also means that there are more inputs. Data and knowledge is key, so the more of it, from different perspectives, the better – especially when it comes to innovation and doing anything new. At the Good Lab, our strength comes from the collaboration of our diverse charity partners.

Insight – whether that comes from market intelligence; organisational understanding; or a deep understanding of the attitudes and behaviours of supporters and customers – is core to making good decisions. Done well, it informs the why, what, when and how of everything that happens within a successful organisation, ensuring a laser focus on doing the right things, for the most effective reasons. Foresight and inspiration from beyond the sector are the other bedfellows alongside insight.

Prototyping, or making things real and getting that prototype into peoples' hands as quickly as possible, is a great way to de-risk the development of products, services and experiences. One secret of this is to not be too concerned about perfection – getting something 'good enough' out for an early real market test is key. You will learn huge amounts by doing this, and can perfect the details of execution after you know that your audience engages with and buys into the core of what you're offering. Good prototype testing allows for plenty of quality feedback that instantly informs improvements and developments – getting you further, faster, on the back of real data. To prototype is to prove.

Alongside these core principles there are many further tactics which can be used to de-risk innovation and development projects, including delivering frequently, having stringent value measurements, and staged investments. These need dedicated structures, governance and processes that are specially designed for purpose. Likewise, teams need the skills, space, time and resources to operate differently if being asked to think differently or do something outside the organisational norm.

DATA AND KNOWLEDGE IS KEY, SO THE MORE OF IT, FROM DIFFERENT PERSPECTIVES, THE BETTER – ESPECIALLY WHEN IT COMES TO INNOVATION AND DOING ANYTHING NEW.

Investing in today and investing in tomorrow

Different time horizons require different attitudes to risk. When considering the future in the longer term, we need to look beyond the mitigations we've already mentioned above – although they still ring true.

Trustees should be engaged and educated to ensure they don't view risk in an overly simplistic way. The rewards to be gained from a short term project for today are not equal to those from a project for the long term future. When allocating budget and resource for long term innovation (as well as evaluating the success of it) we need to remember that this comparison is not equal. There needs to be the budget and skilled resource to gather insight, create solutions and test a variety of outcomes for a 'tomorrow' every bit as thoroughly as for a 'today'. Investing in the short, medium and long term needs to be thought about as a portfolio.

Taking a portfolio approach to innovation and risk means that trustees have to feel more comfortable with failure in a certain context. Working to address the future is hard. It is uncertain. Not as many projects, activities or enquiries will result in a tangible launch or positive outcome. Put simply, more things will 'fail'. But if we have been ambitious enough, those projects that endure – those that 'win' – should be responsible for a much greater upside. The stakes are high, but there has to be space within the innovation portfolio for this high risk, high reward approach, alongside short term and incremental growth endeavours.

Likewise, on the other side of the coin it is of paramount importance to paint a picture for trustees of what might happen if we don't invest appropriately in the future; if we just drift rather than taking a proactive stance. Consumer film giants like Fujifilm and Kodak were branded 'lazy and irresponsible' for not investing in the future and adapting quickly in the late 1990s and early 2000s when it came to the onslaught of digital media. Famously for Kodak, the risk of concerning themselves only with the today, and not tomorrow, was nigh on fatal.

We won't stay safe by sitting tight. The sector must invest in its long term future, both to grow and to defend against imminent disruption. And although taking risks that deal with the uncertainties on the horizon may feel uncomfortable, the far bigger risk is doing nothing at all. ■

Thea Dexter
Head of Front End Innovation, Good Lab

RISK; DEALING WITH THE IMPOSTORS

Throw out the risk register, says Caron Bradshaw, CFG's Chief Executive. The illusion of effective risk management may be what is preventing you from taking the right risks, or any risk at all.

There is a wonderful sentence in the Rudyard Kipling poem, 'IF', that reads "If you can meet with triumph and disaster, and treat those two impostors just the same…" that always makes me think of great risk management. I am not sure if that makes me sad or cultured!

I have long held the belief that risk management, as an industry, has failed to manage risk. That we have become caught up on calculating and weighting, identifying and recording, and spend too little time actually thinking about management. That we have promoted the illusion of a sanitised risk environment in which we can predict, measure, monitor and eradicate the majority of risks and that if we therefore fail, we must have done something wrong. However, not all good decisions lead to successful outcomes (we'll move rapidly past 'what is success?' for a moment) and not all great outcomes come from good decisions.

So if triumph and disaster are impostors, what should we be thinking about when it comes to risk management?

In my view the most important two elements of effectively dealing with risk are a culture where everyone owns risk, and having a shared understanding of the organisational risk appetite.

Having a shared understanding of what your organisational appetite for risk is, that reflects the views of the board and the executive, will not prevent failure, but it will grow an organisation's resilience to counter the negative impact. It will also create an environment in which staff are content to raise concerns and are not fearful of the consequences of failure, allow valuable lessons to be taken from every experience and help an organisation bounce back after facing challenge, crisis or disaster.

But how do you identify and agree an appetite for risk? It starts with a good shared understanding of your business model. Ensuring that the whole organisation understands how funding works and the interdependences between different funding streams, allows you to test out different scenarios. You can put different outcomes and possible future developments on the table with different stakeholder groups and play with those scenarios; how do people feel when a situation is seen in the extremes?

What are the issues which create red lines for you? For CFG, financial management is a red line – we must have robust procedures and will always have a very low tolerance for financial errors. Understand the trade-offs between different levels of risk; more risk might mean the chance for greater reward. Conversely, less risk might deliver fewer positive outcomes for beneficiaries. There is no single 'right answer'.

Ultimately, understanding an individual's and organisations' appetite for risk is about understanding people. People can interpret the same words very differently. For example, CFG have explored what we mean by 'being bold' in our policy work. After all, one person's 'bold' can be another's 'reckless'. By running through different interpretations of the word 'bold' and seeing a mocked up headline expressing a possible campaign line, trustees and staff were able to unpack what we meant by bold; it became a guiding star for the executive in our language, tone and approach.

There are lots of helpful resources which can challenge our thinking about our human responses to risk. When we explored these issues most recently within CFG, we considered less obvious perspectives on risk like that of an extreme kayaker, Steve Fisher, in his TED talk 'Breaking down risk'.

It is so important that as organisations we accept that we cannot eradicate risk. It is inherent in everything we do. And the most powerful risk management tool is freedom and willingness to have the right conversations, at the right levels, at the right times.

Talking about risk (and the little discussed bedfellow, opportunity) throughout an organisation – from top to bottom, transcending hierarchy and job titles, executive and governance – is what will make the effective management of risk, a reality. It is something that should be the responsibility of all. It should not be separate. It should be embedded in all we do.

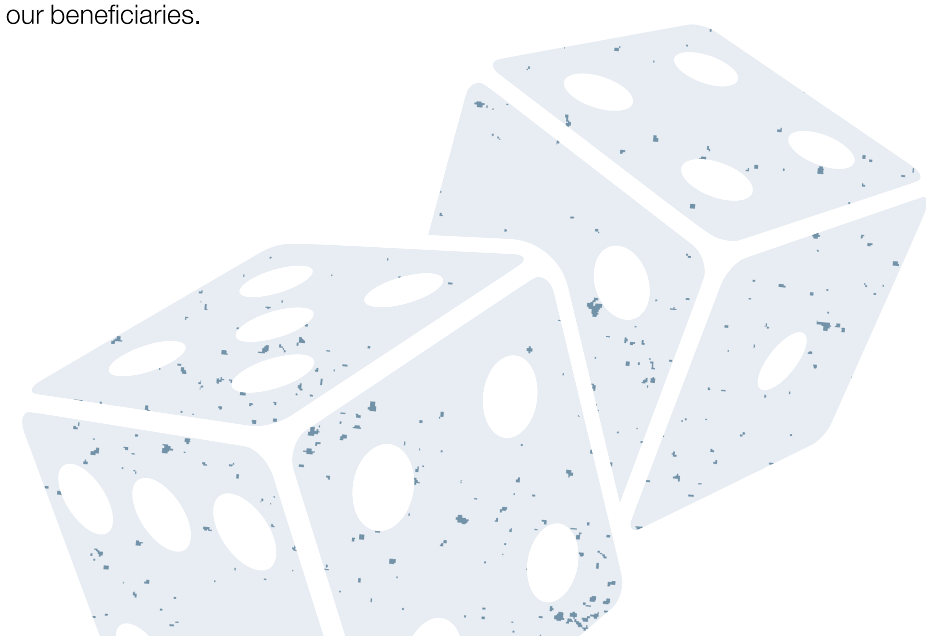
Of course, returning to the question 'what is success?', an additional challenge for charities is that the overarching narrative remains to be financial performance – and more often than not, growth in income. I would argue this is often the worst proxy in the charity context – success is not all about growth, unless the growth you are thinking about is growth in charitable impact.

If we are too worried about delivering to this warped view of success, then it is unsurprising when we don't expose ourselves to the right risk. If we are measured by whether we had a deficit, whether our income grew and whether the organisation itself is bigger (though not necessarily better), it is hardly surprising if our approach to risk and opportunity fails to deliver to our aspirations. We make choices which are too risky or conversely, risk-adverse, in the context of our beneficiaries.

THE MOST POWERFUL RISK MANAGEMENT TOOL IS FREEDOM AND WILLINGNESS TO HAVE THE RIGHT CONVERSATIONS, AT THE RIGHT LEVELS, AT THE RIGHT TIMES.

Success is sometimes a product of good fortune and failure sometimes flows from making bold decisions that were worth taking. Risk management is simply the process of understanding how you engage with your environment as sustainably and effectively as you can, to deliver your charitable objectives. It's about understanding what's happening and why. It's about continuously learning and evolving and it's not about succeeding or failing. So strive to meet with triumph and disaster, and treat those two impostors just the same… for then you will be an effective charity [my son]. ■

Caron Bradshaw
Chief Executive, Charity Finance Group



HOW SHOULD WE FINANCE DIGITAL TRANSFORMATION FOR THE BIGGEST IMPACT?

We've been talking about digital transformation in the charity sector for some years now, yet something seems to be preventing the sector from keeping up with the rate of change in technology and in the society we support.

The idea that digital transformation is expensive and that it has to be an all-or-nothing, upfront investment is preventing FDs from taking decisions to finance initiatives that can really move a charity forward.

You don't need to invest in an overhaul of your entire IT systems before you can transform your organisation using digital technology. Small, incremental changes can be incredibly powerful towards a permanent transformation and investing time and money in people is just as important as investing in technology, to work towards a successful digital transformation.

In last year's Pink Book, EduServ's Finance Director, Nevil Durant, wrote about the importance of investing in the right areas to mitigate the risks of losing service delivery contracts to the private sector and new entrants who are using digital to be more agile, more efficient and more effective.

Deciding how to spend donors' money responsibly and with the best chance of a return on investment are critical elements of any charity's financial strategy, particularly when faced with the threat of having to innovate or die, in an ever-changing world of digital technology.

So where should you consider investing your charity's funds to get the best out of digital transformation?

Invest in digital leadership

One critical element to an effective digital transformation is buy-in from leadership. Finance directors can help by ensuring that digital is being discussed and championed at the highest levels of the organisation by encouraging the hiring of a Digital Director, to set priorities, to own the outcomes and to execute and measure against a plan.

The right person, with the right support, can transform the culture of an organisation and have an impact on the wider charity sector.

For example, Jo Wolfe, formerly Assistant Director of Digital at Breast Cancer Care, developed the Digital Maturity Matrix, to help charities identify their existing digital maturity across eight dimensions including technology, analytics and governance.

Julie Dodd, Director of Digital Transformation and Communication at Parkinson's UK, wrote *The New Reality*, a study with practical advice and recommendations on how charities can utilise digital technology to deliver the next step towards change in social impact.

Finance directors can support Digital Directors by identifying key areas for financing, by collaborating on a budget to execute against the digital plan and by promoting the benefits of digital at all levels of an organisation, because we're living in a digital world now and digital is everyone's responsibility.

Where there is no Digital Director at an organisation, finance directors should promote the value of a temporary hire by working a salary into your budget for the next 2–3 years for a senior hire to plan and implement a strategy for digital transformation which will leave a lasting legacy long after the role is no longer needed.

Also, consider how you're recruiting – and rewarding – trustees who understand the transformative power of digital and can effectively communicate its benefits and gain the consensus of the board.

Invest in digital skills

Lloyds Bank's UK Business Digital Index 2017 reported that 58% of charity leaders believe they have the right knowledge and experience to thrive in a digital world, yet 100,000 charities still lack basic digital skills.

Digital transformation isn't for specialists who know how to make websites, build online donation processes or cultivate communities on social media. It's about a wider cultural change throughout the organisation.

Finance directors should work closely with HR directors to ensure there is funding to recruit, retain and train the right talent. They should attempt to understand the key skills needed to embed digital at all levels of an organisation, including within the finance function of a charity.

Invest in an agile approach to digital service delivery

Digital is a cost-effective way to deliver services at scale, at a time when demand for charity support is growing, while resources to carry out vital work are reducing. New services need developing and existing services struggling under the weight of demand need to be reinvented, often digitally.

One way to keep down the costs of developing new digital services is to take a rapid, agile approach to development. This involves developing in shorter, more affordable bursts, piloting a 'minimum viable product' that delivers a basic level of service, analysing results through usage data collected digitally, then making improvements based on insights from the data. This process of iteration through a series of improvements allows services to be developed gradually while delivering value to service users much sooner than a traditional IT project.

AgeUK is taking an agile approach to digital service development of its Call in Time telephone befriending service. They used online scripts and Application Programming Interface (API) technologies to join up their existing IT systems and to automate previously manual processes that demand a lot of the charity's staff and volunteers' time. Digitising their existing service means they can increase capacity from 10,000 calls every year to 10,000 every week. The Call in Time platform will allow the charity to add further functionality – including using Artificial Intelligence to monitor call recording for certain trigger keywords – and to tailor the service, for war veterans, for example – as additional finance becomes available to the project.

Organisations with a low tolerance for risk can benefit from an agile approach to digital service delivery. Instead of committing a hefty budget to a full scale IT infrastructure change, commit to financing some low-risk ideas proposed by the digital team, to allow them to be piloted and the results measured and analysed.

Finance directors can use evidence gathered from previous experiments to understand the direct outcomes of investing in digital, in order to make future investments, and to confidently justify those investments to the board if required to.

Be prepared to invest in new technology

As well as demand for service, charities need to innovate in order to remain competitive in the service delivery market, given the increase in the number of private companies and new entrants to the sector that are winning government contracts.

Bolder charities are already experimenting with leading digital technologies, including St. Mungo's use of blockchain to create 'smart contracts' between the charity and individual donors, or Parkinson's UK and Royal Society for Blind Children's collaboration on a voice-enabled assistant to provide information and support to users who are less able to use touchscreen-based devices.

Joe Freeman, Assistant Director of Digital Engagement at Breast Cancer Now, hopes to see charities 'taking more risks with digital: exploring new opportunities, not being afraid to fail and ultimately learning all the time to deliver bigger and better things'.

Finance directors can help by allowing experimentation and by being bold about financing potentially risky projects. Simon Hopkins, Chief Executive of Turn2Us and trustee of Charity Finance Group argues that finance people should be 'in the vanguard of innovation in the use of digital to drive the sector forward'.

Let's hope that 2018 is the year that finance directors are able to invest more in digital, with a greater understanding of what 'digital' means, gained through data and evidence of impact and the potential return on investment, so digital can continue to have a positive impact on their charities, donors, beneficiaries and for society. ■

Ed Cox is trustee of Manchester's voluntary sector infrastructure agency and founder of tech for good agency Reason Digital. He works with charities, social enterprises and corporates to achieve a bigger social impact through digital transformation.

Ed Cox
Director and Co-founder, Reason Digital

SECTION 4: STRATEGIC LEADERSHIP

HOW CAN WE INFLUENCE THE CULTURAL HEALTH OF OUR ORGANISATIONS?

Don't confuse culture with a nice place to work, says Sayer Vincent's Judith Miller. It is important that organisational culture embodies the values of our organisations and finance leaders are in a unique position to influence a change in culture.

Why is culture relevant?

Successful leaders from a variety of sectors have described culture as the magic ingredient, a secret weapon – if you get that right then success will follow.

We see reference to culture, determined by the tone from the top, in reports from Financial Reporting Council through to the recently refreshed Charity Code of Governance. Internal auditors also now factor this into their work.

A healthy culture should not be confused with creating a nice place to work. We all want that of course, but a healthy organisational culture is one successfully delivering in the context of its values. Formal definitions are often used but, in a nutshell, it is 'how we do things around here'. If we get it right, it's about our values in action – so there should be no gap between our articulated values and how we behave.

Why does finance play such a key role influencing organisational culture?

Values commonly emphasise the importance of transparency and openness. At the heart of any finance professional's training is the concept of integrity, that quality of being honest and having strong moral principles – living values is familiar ground for us.

Whilst values are established at the top of the organisation, your team might suggest you wait to hear from the board, but the unique position finance has should not be underestimated. We effectively have an 'access all areas pass'. We can and need to connect with all – whether this is through the annual budget setting process, through to making sure people get paid – our colleagues need us and we need them.

> AT THE HEART OF ANY FINANCE PROFESSIONAL'S TRAINING IS THE CONCEPT OF INTEGRITY, THAT QUALITY OF BEING HONEST AND HAVING STRONG MORAL PRINCIPLES – LIVING VALUES IS FAMILIAR GROUND FOR US.

Where should we focus our efforts?

- **Measurement**

As masters of measurement, we all know that 'what gets measured gets done'. We need to consider our KPIs carefully to avoid the law of unintended consequences. A balanced set of targets must be set to generate the right behaviours. Income generation targets set within an appropriately ethical framework to fundraising now seems to go without saying. What about our annual budget setting, if we have a 'use it or lose it' approach to budgeting, might this result in poor expenditure choices? A move to rolling budgets is likely to support better choices.

- **Innovate and learn, don't blame**

How do you and your team respond when things go wrong, from coding errors to overspends, even fraud? What's your starting point? Do you look to assign responsibility or look to learn, so that next time will be different? If it's the former, and those around you feel on balance that the culture is to blame, this can suppress innovation, demotivate and at worst lead people to cover up their mistakes. A positive open culture recognises that progress, learning and development comes through a healthy approach to making mistakes.

Some essential ingredients here would include: clear feedback mechanisms and processes for learning lessons from major projects and initiatives, creation of safe times and spaces for issues to be flagged. It is also worth considering the language you use when learning lessons. Use of the appreciative inquiry technique, 'what worked and what can we build on?', rather than 'what went wrong' and a post mortem.

- **Soft controls**

Lived, shared values are part of what you would describe as soft controls. These are also areas such as a competency framework and an approach to empowerment. Effective soft controls will strengthen your traditional hard controls (reconciliations, approval and authorisation), and ensure these hard controls operate efficiently. No amount of hard controls can compensate for weak or non-existent soft controls. In developing soft controls, do think about how you build trusting relationships within and beyond the finance team and particularly whether you have the amount and timing of training right.

- **Problem solving**

Many of us start our careers in auditing and will have root cause analysis to get under the skin of problems. In our fast-paced working environments, it is easy to jump to a quick conclusion about the cause of a problem. We may be right, but the problem may recur and we're back to the drawing board. Plenty has been written on approaches to root cause analysis. The easiest to remember and apply is the '5 Whys' approach.

- **Getting rid of elephants**

If we wish to foster a culture of openness and transparency we need to make the numbers we report accessible. Finance, to many people, will be the 'elephant in the room'. Perhaps they hated maths at school and have convinced themselves that no amount of effort will make any difference. Financial management is what you are there for and they are there to deliver on the organisation's objectives. We must see ourselves as interpreters and enablers in our organisations. Are your management accounts what the system will produce or have you discussed with stakeholders what they need and tailored your output to their needs?

Above all, work with others to build their confidence when dealing with the finances. So many people fear they are asking a silly question, so, create the time and space so they can do this in safety.

Where could your start?

The above are just some areas to consider. You will be able to identify opportunities in your own organisations. Achieving cultural change is not a quick fix – it's about playing the long game. We can all start by considering our own behaviour on a regular basis and ask "how did I embody our values today?" ■

Judith Miller
Partner, Sayer Vincent

INCREASE LEARNING OPPORTUNITIES WITHIN YOUR ORGANISATION

Save yourself some much-needed resource and use what you've already got to develop staff skills and knowledge. Charity Finance Group's Niroosha Loganathan details different continuous learning options and the lasting impact they can have across the organisation.

Organisations are always looking to improve efficiencies, increase productivity and do more with less. Our financial resources are precious, as is our time. However, investing in learning and development will increase the opportunities for innovation and recognises the long-term commercial impact of investing in your people.

Our approach to learning and development doesn't have to rely solely on traditional training courses. Steps taken towards creating learning opportunities will increase the probability of innovation, creativity and ideas striking within our teams. Training is an essential part of any balanced learning and development strategy, however when time and money are already stretched, there may be other ways to support continuous learning.

Learning opportunities and developing a learning culture within your organisation imbeds the idea of continuous improvement in our day-to-day work. The more opportunities we create to learn, the more chances there are for genius to strike.

There are a number of ways you can increase learning opportunities within your organisation:

Cross-training

You may recognise this from the way supermarket staff are trained. Each role is treated separately, however each person may be cross-trained in multiple roles or activities. Not only does this provide job enlargement and enrichment, it also increases the skills available to you and increases the opportunity for cross-pollinated ideas to arise. If you have a small staff team this can be particularly useful – you are able to open up opportunities to move horizontally through the organisation, rather than focusing on the limited vertical opportunities for promotion.

Microlearning

The key here is to isolate a specific training need and utilise a number of microlearning options to fill a skills gap. It is often tempting to attend a course on communication skills for example, however, chances are that 80% of that course will not be immediately useful and we will therefore not retain the information. By better understanding the specific concern that we hope the training will address, such as communicating difficult information, we can identify an article, webinar or book chapter than can help us to quickly close a small knowledge or skills gap.

THE MORE OPPORTUNITIES WE CREATE TO LEARN, THE MORE CHANCES THERE ARE FOR GENIUS TO STRIKE.

Mentoring

The benefits of mentoring within an organisation are huge. Mentoring is an incredibly motivating and satisfying role to have, and having a mentor is an invaluable resource. In-house mentoring can be the quickest and most effective way to train up new managers – imagine having a trainer that is in-house, that understands all of your HR policies and processes and is a role model to all other managers. Wouldn't that be the best person to pair up with your new line manager? This is a rewarding role for the mentor and a constant support mechanism for new managers.

The best thing about it is they can be available for quick emails, phone calls or catch ups that fit around each of your schedules.

The benefits of continuous training and development will have a lasting impact on any organisation: improved employee performance and confidence; further employee engagement, which can improve retention; a broader understanding of the business which aids innovation and career development opportunities in-house, reducing staff turnover. ■

Niroosha Loganathan
Director of People and Performance, Charity Finance Group

FINANCIAL LEADERSHIP FOR THE MODERN CHARITY

CEO of Turn2us and CFG trustee, Simon Hopkins, discusses just what it is that makes a charity finance leader great.

'People always ask me, 'Were you funny as a child?' Well, no, I was an accountant'. Ellen DeGeneres

Forgive me for not laughing. We're used to the stereotype – dry, introvert, more interested in spreadsheets than people. The financial leader in a modern charity needs to defy these clichés. Fortunately, this revised expectation – finance people who are extroverted and engaged in strategy – is increasingly the norm.

So what does financial leadership look like for the modern charity? I'll take it as read that you have all the technical skills and that you are good at building working relationships. These attributes are essential to financial leadership in any context. What I'm interested in here is that set of things that are specific to civil society organisations.

To anyone in a financial leadership role in a charity and, in particular, anyone who is new to the sector, I'd suggest making these six areas a priority.

A Different Currency

Success for profit-making organisations is essentially measured in terms of shareholder value. True, many companies now have balanced scorecards including quality, customer satisfaction and CSR. But these are arguably designed to protect returns in the longer term. It all comes down to money in the end.

Charities are different. Money is important because without it, we can't do valuable things, and without financial sustainability, we can't be strategic in our ambition. But the true measure of success is genuine social change and that is harder to measure.

So the charity finance leader has to get their head around a number of subtle variables:

- Firstly, it's not always possible to quantify everything. Sometimes we have to use proxy measures or qualitative measures, like case studies. As a profession, we need to be an effective champion of common sense. The advances made in impact reporting of late shouldn't be mistaken for a shift to a sausage-machine approach to understanding our impact.
- Secondly, we are often balancing things that aren't measured in the same way. Prioritising between, say, investment in fundraising and shorter term charitable programmes, isn't easy. We need to be comfortable with ambiguity and judgement.
- Thirdly, you need to understand the business model. Is your cost fixed but your income unpredictable? Can you withstand a significant adverse financial event like the withdrawal of a major funder? Do you understand your balance sheet and the relationship between reserves and liquidity? You have to be the champion of financial literacy and this means understanding that sustainability is more complex than simply setting a balanced budget. You need to understand the difference between strategic (and deliberate) deficit and structural deficit. And then you need to ensure that others understand the model. They may only be used to a P&L account or a cost budget – neither of these is sufficient in isolation in understanding charity finance.

Passion for the cause

Someone asked me last year whether you can be a charity and be agnostic about its work. I don't think you can, if you want to be truly effective. An interest in the charitable work is essential. Indeed it will be a cornerstone in your engagement with your colleagues. It may seem obvious, but we need to keep it front of mind at all times. You are surrounded by people who are incredibly passionate about what your charity does. This is their immutable language and behaviour and you simply have to live it if you are going to be taken seriously. So attend their team meetings, show and tell sessions and briefings.

Multi-tasking and adaptability

As a charity finance leader, you will have to be amazingly adaptable! You may take on responsibility for all sorts of things that you've never done before – fundraising, property, IT. This might come as a shock to anyone who's coming into the sector from a large corporate background where you may have specialised. It's a pretty unlikely luxury in the charity world.

In fact, it's a real positive. If you have any aspirations to a broader role in the future, it can be a real development opportunity. CFG is embarking on a new programme designed to support people in making the transition from FD to CEO. Those who have expanded their frame of reference outside the usual 'finance plus' activities are likely to be better equipped to make the change.

The key is intellectual curiosity. This doesn't mean you have to be carrying around a spare brain in a bag. It's more that to understand the charity's impact, you need to understand how it does its wider stuff. A sincere appreciation of volunteering, digital, fundraising and so forth, and a willingness to contribute in those areas, will make you a better finance leader. And your professional rigour – objective decision-making and analysis – make you a true business partner to those colleagues.

Understanding the four horsemen

There is a 99% chance you are leading on risk. So you need to get your head around the four big strategic risks that affect any charity (I think of them as the Four Horsemen) – compliance, impact, reputational risk and financial sustainability. These exist in other sectors, but because your business model is so different to both the commercial and statutory worlds, the mitigating action you take will look very different. And this involves encouraging everyone to be the charity's eyes and ears – you cannot defend every potential weak point yourself. Far better to instill a culture of horizon scanning.

Similarly, you have to be alert to the external environment. As a sector we need to work hard to improve public trust and confidence. It's taken a hit in recent years and it must be a top priority. Our approach to risk is going to be weak if we don't take active steps to address it.

100-0-0 Leadership

One of the best things about charities is that we share liberally. I know we are sometimes competing for funding but in reality we aren't set up to battle against each other. There's a whole book to be written on collaboration between charities, so in this article I want to focus on something called '100-0-0 leadership'. This is, to my mind, critical to being an effective charity finance leader.

Your professional time is divided into three: the time you spend on your functional role, the time you spend on your organisation more generally, and the time you spend on improving the sector. If your time is spent 100-0-0 then you are seriously missing something.

If I'm the CFO of a bank or a retailer, I'm not going to share innovation too liberally with my peers – I'd be losing competitive advantage. But that's irrelevant between charities.

We all benefit from a healthier civil society. The recent dip in public trust and confidence has affected us all, irrespective of whether we've been singled out. So we simply have to support each other. It's why organisations like CFG were set up and why they continue to be relevant. If you're a charity finance leader and you're not sharing, please start! (And if you're not a member of CFG, please join immediately).

The unique stuff

Our sector is underpinned by two unique phenomena – volunteering and trusteeship. These don't feature much in either the public sector or the commercial world. We need to understand the true impact of volunteering, think carefully about the risks that involves and ensure the right support is in place. The finance person has a critical role to play by asking: are we doing everything to make this as great as possible? You have to meet volunteers to get your head around all of this. It's not possible to understand volunteering based on theory alone.

Similarly, the trustee relationship is crucial. Your trustees aren't there every day and they probably aren't paid. Yet they have all the responsibility. They will look to you to reassure them that the organisation has a viable and resilient future as well as objectively assessing its relevance and impact.

So how do you get all of this right? CFG is a focal point – resources like Inspiring Financial Leadership, our new mentoring programme and networking events are designed to get the best out of you. And don't forget the technical events – being great at the bedrock activities like reporting and controls gives us the license to operate in the eyes of our colleagues.

It's a challenging time to be a charity leader but it's also an opportunity for our profession to prove that the highest levels of compassion and business acumen go together perfectly.

'Follow your heart but take your brain with you'. Alfred Adler ■

Simon Hopkins
CEO, Turn2us and Charity Finance Group trustee

SECTION 4: STRATEGIC LEADERSHIP

MERGING FOR THE RIGHT REASONS – INCREASING IMPACT

Charity mergers happen for a number of reasons, but the sum of two organisations coming together should equal more than its collective parts and therefore increase impact for beneficiaries, says Lynne Berry.

These are tough times for charities and one solution to what is perceived as the lack of public trust in charities, and the consequences that can have on their financial viability and their capacity to raise funds, is that there should be more mergers. Indeed one commentator said in Third Sector magazine that there should be a target of 700 mergers a year.

I'm not sure about this. There are, I think, many reasons to merge – and indeed many mergers do take place (as do charity closures), but the most vital one for me is that a merger must increase the impact of the organisation. I would go so far as to say that if it does not do so, and in a reasonable time, there can be no good grounds for going ahead with a merger.

I write as the Chair of a charity that resulted from a very successful merger, and as a former CEO of several organisations that have merged or amalgamated in some way, with other charities. My sense is the ones that have worked have done so because they shared a mission, a fundamental set of values, and an absolute commitment to increase the impact of the two organisations – that the whole would become greater than the parts. The ones that have been less successful, have been those that have been a rescue job, a forced marriage of unlikely partners or where there was so much distraction that the impact, for an unacceptably long time, was greatly reduced.

So why has this mantra, that mergers provide the solutions to so many charities' woes, become so often repeated? I think it is primarily because charities are very much in the public eye and the public has been surprised to discover that there are lots of them. The other is that this very prominence, at a time of decreased trust in all institutions, means that they cannot escape increased scrutiny of what they do and whether they are effective.

But it is not new. One of the charities of which I was a CEO was Family Action, then called the Family Welfare Association. It was originally set up in 1869 as the Charity Organisation Society or COS. It was, by the way, often said at the time that COS stood for Cringe Or Starve – but that's another story.

What's interesting about the COS, in the context of public concern about the numbers of charities and their effectiveness, is that it was set up to address the very same problems.

> THE ONES THAT HAVE BEEN LESS SUCCESSFUL, HAVE BEEN THOSE THAT HAVE BEEN A RESCUE JOB, A FORCED MARRIAGE OF UNLIKELY PARTNERS

The Charity Organisation Society had, as its primary objective, bringing order to the chaos created by London's numerous charities by coordinating their efforts. *"By this organisation, when fully carried out, [the COS] hoped that no loophole will be left for imposture; no dark holes and corners of misery, disease and corruption remain unvisited; no social sore fester untouched by wise and gentle hands; no barrier of ignorance or selfish apathy stand unassailed between the rich and the poor; no differences of creed prevent unity of action in the common cause of humanity."*

Some of these thoughts are not unfamiliar at a time when people – public policy commentators and journalists, individuals and politicians – are asking, are there too many charities, are they efficient, are they well enough co-ordinated and are they sustainable?

Let me quote a note (necessarily anonymous) commenting on a potential merger earlier this year. The writer was arguing that a suggested merger was a great idea:

"I actually think this is what the sector needs more broadly – it's too diffuse and disparate, and in any other market the amount of inefficiency that grips the sector just wouldn't be allowed to exist but the most important market of them all – doing social good – is the most inefficient.

What an echo across the ages: this sector needs to be tidied up.

As well as the sense that there are too many charities, there are currently other drivers for mergers, particularly those of public policy, public finance and the commissioning of public services. I was struck by one conclusion of the recent King's Fund Report *Commissioner perspectives on working with the voluntary, community and social enterprise sector February 22 2018.*

It boiled down to 'there are just too many of them and they fight each other. Why can't they just work together? How can we be expected to talk to them all?' It concluded:

'The VCSE sector has a role in coming together to provide a strong and unified voice as it engages with commissioners. This requires leadership from within the sector to manage competition between different organisations. Strong leadership is essential to build collaboration and partnerships within the sector and with commissioners'.

It reminded me a little of Henry Kissinger's supposed question: "Who do I call if I want to call Europe?"

If the charity you work for wants to be in a position to win contracts, it will indeed be easier if you are large and if you can encompass a whole range of skills and areas of expertise, if you can be a one stop shop. But you need to be in charge of the agenda and not just be doing it because it means you are bigger. It must be because you will increase your impact. It may, in addition, make it possible for your organisation to become more financially sustainable, though, of course, more vulnerable to other market forces. And the costs of compliance and accountability, of having the professional services that accompany size, growth and risk, may mean the efficiencies are not as great as you might hope.

So, if the drivers for mergers are not that there are too many charities, and not that the financial gains are inevitably (or even largely) realised, do mergers and collaborations do anything to increase sustainability?

They can. In my view there are many good reasons for mergers and many more reasons for charities to collaborate (and not just with each other), but they are trumped by the best reason of all – that it will improve the impact of an organisation. One great example of this is the merger of Breakthrough Breast Cancer and Breast Cancer Campaign to create Breast Cancer Now.

Two complementary, if at times competitive, charities explored the possibility of a merger and undertook a serious and detailed gap analysis of what was needed to get to their joint goal of a world in which women did not die of breast cancer. As a result, they realised that each filled the other's gaps, that together they could respond to a world in which the science they both funded had changed. In the new joined-up world of genomic research, answers were global and size mattered. The new charity, three years on, has already had the sorts of scientific success that will make a difference and in time it will mean women who get breast cancer will live, and live well, and that many more will not get it at all.

Mergers can increase impact and then they may also increase sustainability. The money, however hard earned, will follow; supporters will reward organisations that put the mission ahead of all else.

I really don't think the reason for charity mergers is the number of charities or their perceived lack of co-ordination and effectiveness. I do think the reason is that they can, by focusing on what they are there to do, by increasing their impact, change the world for the better. ■

***Lynne Berry**, OBE*

SECTION 4: STRATEGIC LEADERSHIP

HOW TO ENGAGE YOUR WHOLE BOARD ON FINANCE

Reports have shown that there is a gap in trustees having an appropriate level of understanding of strategic financial governance matters. Sudhir Singh, MHA MacIntyre Hudson, shares key findings and offers tips on how to get a fully engaged board of trustees.

Whilst the premise of this article, that more charities should seek to engage their whole board in considering financial matters, might seem obvious, it is reasonable to first confirm this view.

In a survey undertaken by the Charity Finance Group and MHA in 2017, this was a clear result. 84% of charities considered it would be beneficial for their trustees to have a better understanding of strategic financial governance matters. In addition, 92% considered it was important to have more than one person on the trustee board to be engaged with the charity's finances.

Academic research supports these findings. In November 2017 the results were published of a major research report *Taken on Trust*.

The detailed research was undertaken with the encouragement of the Charity Commission. A key recommendation was 'that more work be done to encourage trustee boards to actively embrace the introduction of different people, new ideas, skills and experience to trustee boards…'.

Key attributes

An appropriate goal is engagement universally across all trustees.

This can be broken down as:

- **Engagement** – Addressing financial issues appropriately and effectively – securing commitment and avoiding complacency.
- **Universality** – All trustees have joint and several responsibilities – no-one can abdicate their responsibility – that involvement needs to be wholeheartedly and conscientiously demonstrated by establishing skills and instilling competency.

> IT IS IMPORTANT THAT WE ARE HONEST IN ADMITTING THAT BEING AN EFFECTIVE TRUSTEE REQUIRES A SIGNIFICANT COMMITMENT

Diagnosing the cause

If whole board engagement in finance does not exist, it is worth seeking to determine why. There are numerous factors that may influence adequate engagement: understanding of role, sufficient involvement, personal and corporate attitudes, motivation, governance leadership, governance structures. Similarly, universality can be affected by many issues: knowledge, ability, experience, fear, resourcing, induction and training.

A plethora of barriers may exist, but to aid these being addressed I have categorised engagement barriers as being *Commitment and Complacency*, and barriers to Universality as being *Skills and Competency.*

Set out below are observations regarding each of these four areas, together with actions that can be taken to overcome these barriers.

OUTCOME	BARRIERS	ENABLERS
ENGAGEMENT	**Commitment**	Role descriptors Trustee contracts Trustee and governance appraisal
	Complacency	Effective chairing Regular performance review – including external Governance codes and sector tools Comprehensive induction
UNIVERSALITY	**Skills**	Skills audit Informed trustee recruitment and induction Trustee training budgets Continuing trustee development Management support
	Competency	Competency assessment Personal reflection Competency framework Organisational culture

Securing Commitment

It is important that we are honest in admitting that being an effective trustee requires a significant commitment, if the role is done well. If trustees fail to devote sufficient time and effort, what can be done to encourage greater commitment?

Whilst the clear majority of trustees are plainly not wilfully negligent, there seems to be a widespread acceptance of mediocracy.

Greater realism is needed to recognise that being an effective trustee in most charities is a highly onerous responsibility. In the absence of high levels of commitment here are two ideas:

1. **Establish a trustee contract** – few would ever employ a member of staff (or these days, use a volunteer) without a written contract setting out mutual expectations. Often a trustee's approach to their role is almost entirely self-determined. Whilst the role may be defined (although sometimes not adequately), how to fulfil it is often unclear. This contract does not need to be too formal or extensive, but could set out key points such as time commitments, expectations for initial induction, acceptance to undertake training and continued trustee development, agreement to attend events, and level of preparation for meetings.
2. **Carry out appraisals of performance** – Trustee appraisal is often encouraged but seldom adopted. It would be helpful to have more use and wider scope of such formal performance evaluations. These should include individual trustees, committees and the board as a whole.

There is plenty of guidance on this subject, and whatever is done, it is important that the appraisal includes quantitative measures such as meetings attended, as well as qualitative assessments, tailored for the charity, for example considering time spent on specific activities, including the preparation for meetings, and the quality of decisions made by trustees.

Avoiding Complacency

The Charity Commission have toiled long and hard to reiterate the essential requirement of trustees to engage on financial governance matters. Indeed 12 of the excellent '15 Questions that Boards should ask' concern financial matters. Yet surveys and the evidence of Charity Commission regulatory interventions show scant regard of this good practice, even amongst well-resourced charities.

Are there trustees that can't be bothered to discuss finance? Is active complacency rife in the sector? Whilst this is possible, clearly most trustees want to do a good job. Therefore, is there subconscious complacency? It may be the case that trustees just don't recognise their failings. Why might this be?

Could there be an unwillingness to accept failings? Perhaps trustees don't know what 'good' looks like? A lack of awareness would be quite understandable – after all few trustees have comprehensive training for their role, and trustee qualifications are essentially non-existent. What could shake up this virtueless circle? Certainly performance assessment or self-reviews may help, as noted above. However, self-review has its limitations – it can be affected by individuals' perspective, experience and knowledge. The 'don't know what you don't know' conundrum.

If self-review may not be sufficient, charities may need something more robust to stir things up. Some options include:

1. An effective board chair or finance committee chair, that leads a formal review of performance and challenges effectiveness. The recently revised Good Governance Code may be a useful performance standard, and compliance checklists based on this are readily available.
2. Use of an external viewpoint on a periodic basis is helpful to provide an independent challenge. Although do ensure you use a suitable peer/professional adviser/ or consultant.
3. More formal trustee induction and training. Having recruited good, new trustees, charities often don't devote sufficient resources to 'on-board' them. So, make it a virtue not an obligation.

Establishing Skills

Whilst often cited, is lack of skills a serious concern? It is fair to recognise that many charities do struggle to recruit trustees with appropriate finance skills. However, the whole board does not need higher level finance skills.

Equal responsibility does not mean all need equal levels of skills and competencies, and certainly, all charities need some minimum level of skill.

What should you do next?

1. **Recruit** – It is possible that for some charities the existing skills base is just too low, and the only solution is recruitment. A thorough skills audit or assessment should be undertaken regularly to inform recruitment, beware using a standard template, as skills should be tailored to the specific needs of the charity.

There is plenty of external sector guidance to help with trustee recruitment. For example, Charity Commission guidance CC30 *Finding New Trustees: What Charities need to know.* This will enable most charities to establish and use policies and processes on the recruitment, selection, and induction of trustees.

And organisations such as the ICAEW have aided the potential pool of trustees through encouraging the involvement of their members.

2. **Training** – Sufficient finance skills can be developed and refreshed amongst all individual trustees in almost all cases through training and development, as long as there is sufficient personal commitment. All charities should consider establishing a realistic budget for trustee training every year. Cost should not be a barrier as sector organisations such as CFG and professional firms are very willing to provide free, or low-cost training seminars, or experienced peers can be a value support. Management can assist through guidance, instruction, clear trustee papers, and personal engagement – much can be informal and 'on the job'.

Instilling Competency

In our survey, 6 out of 7 charities had trustees with finance skills, hence should have been well-placed to perform well. Yet they often appear to need to better understand strategic financial governance. This suggests this is not just an issue about skills, but about how they are used – in other words about competency and this is about using skills successfully.

What makes someone competent?

1. Having relevant skills – tailored to the specific financial circumstances of the charity.
2. Understanding how to apply their skills – the financial management of charities can be radically different to that of a commercial organisation, and the same approach may well be harmful.
3. Recognising when appropriate knowledge is held – being an expert in your chosen field may indicate a great ability, but the charity sector has many unique aspects to its regulatory and operational frameworks.

So, how do trustees ensure they are competent? One possible solution is to use a competency framework. In its simplest form this is just a list of both necessary areas and desirable areas of competence. This can then be used by the individual trustees to identify gaps in skills and knowledge to be considered competent. Also in a culture of honest feedback, appraisal of the competency of individual trustees can identify where action may be needed.

The road forward

It is a given that strong and effective engagement from trustees in finance makes a tangible difference to the impact that a charity can have on its beneficiaries. There is an increased recognition that it is not only systems and processes that are important, but the softer areas of attitudes and behaviours. There is no silver bullet to achieve this, but awareness of these issues and seeking to do at least something, will result in significant benefits.

In the Charity Commission's response to the *Taken on Trust* research, they stated "The NCVO/ Cranfield Trust report on support available to trustees, published alongside the main research, demonstrates that a wide range of rich support is available to trustees. Taken together, the two reports indicate a gap between the support available and the uptake". I hope this article will encourage actions that will reduce that gap. ■

Sudhir Singh
Not for Profit Partner,
MHA MacIntyre Hudson

05 USEFUL RESOURCES AND TEMPLATES

IN THIS SECTION

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

Reporting to:...

Direct reports:..

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.

CONTINUED...

Team

- To foster a culture which supports organisational and individual learning
- Ensure staff are motivated, customer focussed, trained, and deliver against objectives.
- 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 JOB DESCRIPTION: HONORARY TREASURER

Treasurers may have specific roles and responsibilities delegated to them; however, all trustees, not just the Treasurer are responsible for the charity's finance and should be able to understand, consider and comment on financial information.

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 provide the board with the confidence and knowledge 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 independent examiner or 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 the 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.

- **Investments**

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 pensions**

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.

CONTINUED...

• **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.

• **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 have important relationships with the executive, particularly with the Director of Finance. The Treasurer will also have a more distant 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 may 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

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 no more than
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 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
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, Partner / Gatwick Business Assurance, BDO LLP for reviewing and updating this Terms of Reference.

BDO

SECTION 5: USEFUL RESOURCES AND TEMPLATES

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 indication programme for new Committee members.
7. The Committee will meet not less than twice a year and additionally as may be required.
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 compliance with the Charity Good Governance code and 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 which 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, Partner / Gatwick Business Assurance, BDO LLP for reviewing and updating this Terms of Reference.

BDO

SECTION 5: USEFUL RESOURCES AND TEMPLATES

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 5: USEFUL RESOURCES AND TEMPLATES

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.

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 House 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 has now been 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. The Fundraising Regulator has made changes to the Code of Fundraising Practice to take account of new data protection laws (GDPR). The new rules will come into effect from May 2018. Also be aware of the latest Gift Aid provisions:

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) Ccompliance with the General Data Protection Regulation (GDPR) which comes into force in May 2018;

(h) Safeguard the charity's intellectual property.

(i)) Be aware that since January 2018, the charity commission has been accepting applications from charitable companies wishing to convert to a charitable incorporated organisation.

(j)) The charity commission has announced a suite of steps on safe guarding.

(k) The charity commission has issued new guidance on charities connected with non-charities.

(l)) The charity commission's guidance "Protect your charity from fraud" has been updated to include a new infographic about reporting fraud.

(m)The 2016 Act provisions on automatic disqualifications of trustees (and senior charity managers) will be introduced on 1st August 2018

Prepared by Suresh Lalvani
Chartered company secretary
February 2018

SECTION 5: USEFUL RESOURCES AND TEMPLATES

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:

....

06

CORPORATE PROFILES

IN THIS SECTION

- Crowe Clark Whitehill
- EdenTree
- Saffery Champness

CROWE CLARK WHITEHILL

Both the Charity Finance and Charity Financials audit league tables list us as the leading charity auditor, a position we have held for nine consecutive years. We provide our services internationally and are the UK member firm of Crowe Horwath International, the eighth largest global professional services network with 200 independent member firms operating from offices around the world.

SERVICES:

In addition to external audit we provide a range of services to charities including risk and assurance, VAT, direct tax, employment tax, counter fraud, grant management, governance and performance reviews. We also support the sector and keep charities abreast of relevant issues in a number of ways including our seminar programmes, breakfast briefings and publications.

KEY CONTACTS:

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Global Head of Non Profits
pesh.framjee@crowecw.co.uk
Naziar Hashemi,
National Head of Non Profits
naziar.hashemi@crowecw.co.uk
www.croweclarkwhitehill.co.uk

SAFFERY CHAMPNESS

Our national team of charity and not-for-profit specialists help our clients to thrive by consistently providing expert, pragmatic and well-rounded advice.

Our clients include new start-up charities, centuries-old livery companies, independent schools and academies, grant-givers, endowed foundations, clubs and membership organisations, service delivery charities, theatres and cultural organisations.

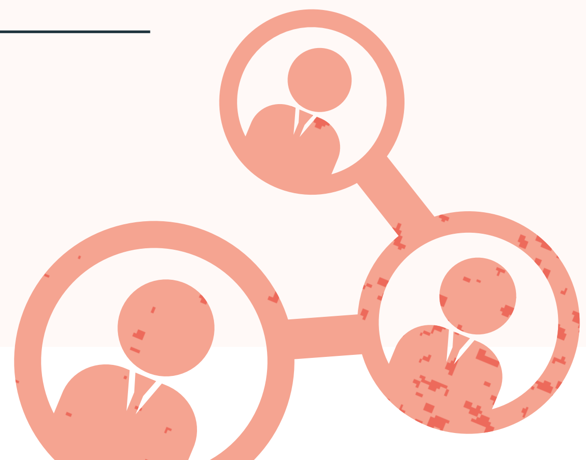
We invest time in getting to know our clients, so that we can provide a genuinely tailored and partner-led service as advisers and auditors.

SERVICES:

Audit and assurance, accounting, tax advice and compliance and VAT services.

KEY CONTACTS:

Liz Hazell, Head of Not-for-Profit
liz.hazell@saffery.com
+44 (0)20 7841 4000



EDENTREE

EdenTree, the shining light in responsible investing, is part of the Ecclesiastical Insurance Group, an independent financial services company established over 125 years ago and owned by the Allchurches Trust, one of the UK's largest grant-making charities.

Profits with principles: EdenTree has a strong heritage of delivering profit with principles and is a leader in Socially Responsible Investing (SRI). EdenTree has a long-established track-record of successfully managing both ethically screened and non-screened portfolios for individuals, institutions and charities.

Adverse environmental impact and the pressures placed on society by globalisation is no longer somebody else's problem. It has both direct and indirect effects on the way we live our lives. EdenTree employs both negative and positive screening to its stock selection process and engages with companies before, during and after investing. This process is integrated into our overall investment management process.

Charities are set up in response to social needs and few would wish to support companies whose activities cause or exacerbate the problems that they seek to alleviate. That is why we endeavour to invest not just in companies with sound financials, but those that additionally deliver economic, social and environmental benefit for society and the communities in which they operate.

Our expertise in this area has been recognised by winning the Moneyfacts Best Ethical Investment Provider for the past nine consecutive years.

KEY CONTACTS:

*For further information please contact **Philip Baker** or **Ian Dale** on 0800 032 3778 or at charities@edentreeim.com. Alternatively please visit our website at edentreeim.com*

NOTES

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