

# Charity Finance Group Handbook 2016

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# THE PINK BOOK



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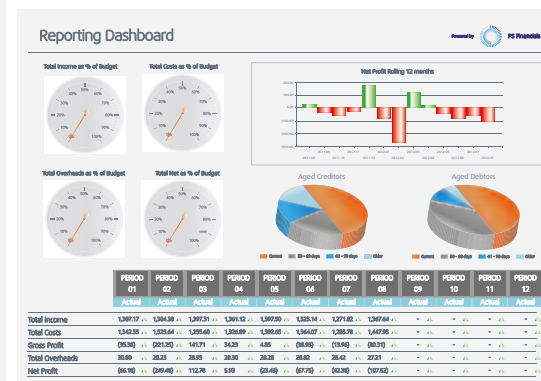
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# 01

# CHARITY FINANCE GROUP

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# FOREWORD

Welcome to CFG's first 'pink book'. We decided to make the 2016 annual CFG Handbook an in-house offering for the first time this year. The hope is that this will mean a more useful resource that is much more tailored to your needs; delivering content on the things you have highlighted as most important to you. We have worked closely with a wide range of expert volunteers and your peers to bring you insights, advice and practical tools that you can refer to throughout 2016.

It has been a year of considerable challenge for the charity sector. We have had a real impact in areas of significant importance to us and to our members. Whether it is pensions, de-risking by banks, the tax landscape, social investment or the development of the Statement of Recommended Practice (SORP), CFG has been at the heart of the conversations. We've also developed a greater range of services and support, and have continued to improve our influence with government and regulators in all matters of charity finance. You will find insights on this wide range of topics reflected in this publication.

What did 2015 hold for the sector as a whole? The pressure has not let up. At some points, it felt like the sustained and wide-ranging nature of the criticism and negative press coverage aimed at charities would never cease. How charities raise funds, manage data, and how we are run (and regulated) have all been subject to harsh criticism. High profile

failures, of different kinds, have been seemingly endlessly debated.

But are we 'in crisis', have we suffered a 'collapse' in confidence and trust? We don't think so – even if our challenges have been significant. The actions of a few may have been described as immoral, and the state of the whole sector damned, but these proclamations are often based less on facts and more on the feelings such grotesque headlines can generate.

In 2016 we must respond better – with moderation in our language and robustness in our responses. CFG will be right there – injecting evidence and measured tones into the debate.

Whilst 2015 felt particularly nasty, the situation has actually been brewing for a while. In drafting this foreword, we looked back at the

various articles and comments we have both made over the last few years. I suspect you won't be surprised that a number of things have popped up repeatedly during the last few years; eroding 'trust and confidence' in the sector, the role of transparency and how we communicate our impact as a sector.

Trevor Morris said at our risk conference in late autumn 2013, "I get a very real sense that charities [...] are not seen as innocent anymore." We need to brace ourselves for this greater scrutiny, and welcome it – it is here to stay. It is not an entirely bad thing, however; scrutiny gives us an opportunity to share what we do and an opportunity to explore ways to improve how we do it.

CFG took further steps to better understand and articulate our

# “Welcome to CFG's first Pink Book”

impact during 2015. We believe that for the charity sector to transform and be as effective as it can be, we need to inspire new thinking and not just increase the financial skills of individuals. We believe that changing the way that financial management is seen and positioned within organisations, how it is communicated internally and externally, will maximise charities' positive impact on their beneficiaries. You – our members – are a key part of that journey and mission.

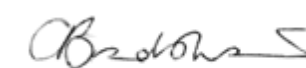
Charities need to be trustworthy, effective, transparent and accountable. Without this, the support the public generously give

and the confidence of wider stakeholders in the work charities do is undermined. Policy makers and funders should be more eager to support effective charities but the role that financial management plays in demonstrating that effectiveness is often given insufficient value.

We recognise though that transparency is a dangerous game. The stakes are high. Charities are encouraged to be open and transparent about their triumphs and disasters in equal measure. Yet, to twist the words of the great Rudyard Kipling, 'those two impostors are rarely treated the same', and behaviours can become warped

as people become reluctant to admit failures. So alongside this greater openness, we must encourage greater acceptance amongst the wider public that effecting social change is not an easy or problem-free road and that negativity suppresses innovation and risk taking.

Without innovation we will not bring about the social change that is needed, particularly in these resource-constrained times – and without the ability to take risks we will not maximise the effectiveness of the sector.



**Caron Bradshaw**  
Chief Executive Officer, CFG




**Ian Theodoreson**  
Chair, CFG



“For the charity sector to transform and be as effective as it can be, we need to inspire new thinking and not just increase the financial skills of individuals”



# NEW TIMES, NEW CHALLENGES

**Pesh Framjee provides an overview of the changes and challenges that faced charities in 2015, and looks towards what's on the horizon for 2016.**

2015 has been a challenging year for charities. Although there have been undercurrents for some time the starting gun seemed to be in May 2015 following the tragic suicide of charity supporter Olive Cooke. Predictably, the press went for the sensational headlines "Olive Cooke was hounded to death by charity because of her kindness". This was despite her family explaining that this was not the case. This unfortunate case will continue to have implications for charities for some time to come as charities have to become more resilient to meet increasing demands to do more with less.

In the summer of 2015, CFG and other umbrella bodies published a review into the financial sustainability of the voluntary sector. Billed as a wakeup call for the charity sector, government and funders, the review highlighted that although the economy is recovering, the charity sector's finances are lagging behind. Income is down £1.4bn from its 2007/08 peak, and has stagnated since 2009. Income from government, both through contracts and grants, has fallen significantly and is more than the increase from individual

giving and other sources. Interestingly almost all the increase from individual giving relates to income from fees charged for services. The research shows that without a significant and sustained improvement in its funding environment, the sector could experience a delayed impact from the recession.

As charities become more reliant on voluntary income, the need to maintain public trust and confidence will become even more important. The Charity Commission has been monitoring this for some years through their biannual survey of Public Trust and Confidence. The last was carried out in March 2014, and scored charities at 6.7 out of 10. This is a high score compared with other public bodies and institutions. Of the ten other bodies that the survey asked about, only doctors at 7.6 and the police 7.0 had higher trust scores than charities. Interestingly, the three lowest scores came from the groups that often have the most to say about charities and the importance of public trust and confidence. MPs scored 4.2, marginally above government ministers and newspapers at 4.1. But, there is no room for complacency and it is possible that the spate of bad press in 2015 could lead to lower public trust and confidence that could exacerbate the impact of the challenges that charities are facing.

Charities are facing a period of change and need to ensure that they are positioned to achieve their objectives

and meet needs in an ever changing environment. Our sector faces a number of key issues and challenges, many of which have been discussed in this book, and it is in this context that strategic as well as financial controls are particularly important. Section two considers these and other emerging issues in more detail and it is clear that there are opportunities as well as challenges.

As charities try to raise more funds, new and more innovative methods will be used and tax and charity law will be probed. Section three considers some of the tax issues. In addition, an updated edition of the CFG publication *The Tax Implications of Charity Trading*, which considers fundraising and tax issues in more detail, will soon be available on the CFG website. New regulations and laws on fundraising and reporting are imminent. A new Act, the Charities (Protection and Social Investment) Act, will soon hit the statute books, and an overview of this is provided in section eight. This will provide far reaching powers to the Charity Commission and require charities to provide information on their fundraising methods.

2015 also saw the introduction of a new Charity SORP (see section three). The Charity SORP is relatively unique, as it makes recommendations on good narrative reporting as well as financial reporting and this has led to charities in the UK focusing on areas that are often not thought about in other geographies or other sectors. Over the years SORP disclosure

**“ We need to stop talking about good and bad expenditure and focus instead on performance ”**

requirements have led to the bar being raised on various aspects of a charity's management and governance. For example, after the SORP introduced the requirement to consider risk management, charities have made great strides in this area – see section six. Similarly, the requirements to discuss achievements and performance led to many charities enhancing their performance management systems. It will be increasingly important for charities to focus on how they identify record and report on what matters (see section seven).

Discussions about transparency, accountability and the need for charities to demonstrate effectiveness and impact have moved centre stage. Regrettably, there continues to be a spurious belief that charities can be measured by looking at expenditure such as fundraising costs or charitable expenditure in the financial statements and comparing it to the income raised.

The Charity SORP is trying to raise the bar on better reporting of achievements and performance and there are no stereotyped solutions or yardsticks that would work for all charities and all circumstances. The task of setting spending priorities for charities 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. It is in this context that charity trustees and management have to make difficult

decisions and transparently explain their thinking. For too long these decisions, biased by concerns about cost ratios, have been suboptimal and trustees and management have shied away from making good choices simply because they believe it would impact on how their cost ratios are perceived.

This has led to an under investment in vital infrastructure and in areas considered 'overheads' such as information technology, skills training, good fundraising processes and effective governance and management. This in turn leads to a vicious cycle that exacerbates the problem. The press and other commentators and, through their reporting, donors and others have unrealistic expectations about what it takes to run an effective charity. Charity trustees often react to these unrealistic expectations and fail to invest in vital infrastructure. This in turn leads to increasing the unrealistic expectations of doing more and more with less and less.

Charities are also to blame, although we understand that cost / overhead ratios are not a measure of efficiency or effectiveness, the sector continues to use them in marketing materials. As long as we do this, commentators will continue to try and make superficial and misleading comparisons, further perpetuating the unrealistic expectations and poor understanding by highlighting financial ratios as a measure of effectiveness. This is because it is thought to be what donors want to

see, and as a result the more difficult reporting on performance falls by the wayside. The narrative needs to move on and the vicious cycle needs to be broken. Charities need to be bolder in their messaging – explaining operating realities, costs and what they are really achieving. We need to stop talking about good and bad expenditure and focus instead on performance.

The Overhead Myth campaign in the USA asks three things of charities to help move toward an Overhead Solution:

- First, demonstrate ethical practice and share data about your performance. Proactively demonstrate why donors should trust you. Have the courage to share information about your goals, strategies, management systems, and governance processes.
- Second, manage towards results and understand your true costs. We have found that many nonprofits do not manage with an eye always on results – and even if they do, they don't know how much it costs to achieve those results. Organisations need to employ effective performance management systems and recognise that financial management is not just about audits and forms, it is also about understanding the cost of achieving their missions.
- Third, help educate funders (individuals, foundations, corporations, and government)

**“Charities are facing a period of change and need to ensure that they are positioned to achieve their objectives and meet needs in an ever changing environment”**

on the real cost of results. Have honest conversations with your funders about what it takes to deliver charitable work.

As the sector grows in size, in complexity of structure and activity laws and regulations have become more demanding and the internal and external environment is changing. More is being expected from management and Trustees. Management have moved from being administrators to leaders and Boards have become sources of leadership.

The operating environment is even more demanding, and future

strategic development will need to address a number of factors which are different to the past. Priorities need to be constantly reassessed and charities need to be nimble and flexible. Knowledge needs to be not just as accurate and relevant as possible, but it should be attuned to analysis from different perspectives.

Many of the articles in this book provide useful tips and learning for charities. Educating the public will be challenging but we need to address this soon – there is a perfect storm brewing and public trust and confidence in charities will suffer if we do not help the public to really understand our sector.

**Pesh Framjee**

*Head of Not for Profit, Crowe Clark Whitehill.  
Pesh is also a special advisor to CFG.*



**Save the date:** Pesh Framjee's popular annual round up of key issues for the charity sector will take place at the CFG London and South East members' meeting on 10 January 2017.



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# SHAPING AND INFLUENCING GOVERNMENT POLICY IN 2015

Many of the issues covered in this article will be explored in more detail at the CFG Annual Conference on 26 May 2016 – find out more and book at [www.cfg.org.uk/ac16](http://www.cfg.org.uk/ac16)

## Andrew O'Brien reflects on a busy year for the policy team, and provides an overview of some of the key policy issues from 2015.

CFG's policy team works to represent the views of our members and of the wider charity sector to government, regulators, policy shapers and decision-makers at all levels. We stay abreast of the latest issues and work to actively shape policy and legislation. We also campaign for a better operating environment for charities, and our members are kept up-to-date about new developments that may impact on their daily work.

2015 was an election year so it was always likely to be busy, with the Coalition trying to brush their desks clean of any remaining policy issues; and then the new government trying to kick start its term with a rush of new initiatives. Not only did we get a Conservative majority government for the first time in 18 years, but charities also dominated the headlines with the collapse of Kids' Company and scrutiny of fundraising practices.

CFG's policy team went through a period of renewal during 2015, but that didn't stop us working on a number of key issues for charity finance professionals throughout the year.

## Tax

Tax issues dominated CFG's policy work for much of the year. 2015 saw consultations on changes to Gift Aid donor benefit rules and business rates. CFG responded to both consultations on behalf of members and the charity sector.

Gift Aid donor benefit rules are important for many charities, and we argued that any changes should benefit all charities, not lead to any additional administrative burdens and work within the world of fundraising practice. We are now responding to the government's proposals.

Business rates were the biggest issue for concern – this is a tax relief that is worth £1.5bn to charities each year and is critical to the operation of tens of thousands of organisations. CFG has been involved in discussions since the government's consultation began, and we have called for the government to protect charitable rate relief and look at increasing it to 100% to make the system simpler and fairer. However, with the government looking to devolve more decisions to local authorities and councils having to make billions in additional cuts, there is a still a risk that charitable rate relief could be abolished or reduced. A decision is due after Budget 2016, and CFG will be building a coalition of organisations to protect this vital relief.

After several years of campaigning, the government finally began a review into the Gift Aid Small

Donations Scheme at the end of 2015. This is a scheme that has under delivered for charities, with only £27m being raised despite the expectations that it could raise over £150m. The scheme is too complicated and penalises smaller charities. CFG has continued to put pressure on the government to change it. The review is due to conclude in 2016 and hopefully we will see significant reforms that enable more charities to make use of it.

Alongside these issues, CFG continued to engage with the government on issues such as Irrecoverable VAT; online giving and how Gift Aid can be better promoted. Tax will be central to the work of the CFG policy team in the coming year.

## Pensions

Another success for CFG was convincing the Coalition Government to begin a consultation on changes to Section 75 debt rules. Many charities are trapped in defined benefit pension schemes that they cannot get out of, due to debt triggers that they cannot pay. CFG has highlighted this challenge in several reports and publications, and the government's consultation recognised that this could be making pension schemes more unsustainable. Unfortunately, a change of government has taken the momentum out of reform, but CFG will keep putting pressure on the government to change these rules with the support of our expert corporate partners.

“CFG has been at the forefront of alerting charities to key financial risks and encouraging the government to take action”

CFG also released a major new publication to help over 20,000 small charities to prepare for auto-enrolment from April 2016. All employers are now obliged to provide a work-based pension for all their staff but many small charities are finding it difficult to prepare as they do not have experience in the pensions space. CFG's new guide is specifically aimed at smaller charities and was developed with Premier Pensions. CFG will be monitoring the implementation of auto-enrolment throughout 2016.

## Financial sustainability

2015 was a tough year financially for many charities, and CFG has been at the forefront of alerting charities to key financial risks and encouraging the government to take action. Last year, alongside NCVO and other sector bodies, we co-wrote a review on the impact of the recession for charities and how organisations have tried to adapt. We identified a £4.6bn gap in funding by the end of the decade if current funding trends continue, mostly driven by falls in government income. This funding gap frames all discussions around the financial future of the sector.

CFG continued its partnership with PwC and Institute of Fundraising in delivering another edition of our Managing in the New Normal survey. This survey documents the key challenges facing charities and the actions they are taking to mitigate these challenges. The survey identified the continuing importance

of financial leadership and the need to improve these skills within the charity sector.

CFG also led sector responses and submissions to the Budget and Comprehensive Spending Review, calling for action on key issues and developing policies to resolve long term challenges facing charities.

## Bank de-risking

Ensuring that charities have the right access to financial services was an important area of CFG's work in 2015 (see my article in section five for more in-depth coverage of this). Our Chief Executive, Caron Bradshaw, attended a meeting hosted by the Financial Secretary to the Treasury to raise the concerns of charities due to bank de-risking. We hosted an event with Chatham House and Conciliation Resources which brought together charities, senior government officials and regulators. This looked at how bank de-risking and counter-terrorism legislation was affecting the ability of charities to carry out humanitarian, peace building and development in fragile states. CFG also hosted a roundtable for charities as part of a Financial Conduct Authority investigation into bank de-risking, and co-ordinated a response on behalf of UK charities on international counter-terrorism financing regulations.

## Accounting and regulation

There were a number of regulatory issues in 2015, including the end of the FRSSE SORP and consultation on digital reporting which CFG responded to on behalf of charities.

Alongside partners, CFG also helped to revise the Charity Commission's new charity trustee guidance (CC3) to include stronger messages on the importance of financial management and managing pension risks. We also hosted a drop-in briefing for Members of Parliament on the Charities Bill, alongside NCVO and CAF, which raised concerns that charities had about some of the new powers of Charity Commission.

**Andrew O'Brien**  
Head of Policy and Engagement, CFG



# CFG MEMBER BENEFITS

***Your CFG membership is an excellent way of staying in touch and keeping informed on key issues facing charity finance professionals. Don't forget to take full advantage of the many benefits your CFG membership entitles you to.***

## FINANCE FOCUS MAGAZINE

Receive Finance Focus magazine every month, allowing you to stay up to date with key issues. All contacts in member organisations can also receive the e-newsletter version.



## JOB BOARD

Looking to advertise a vacancy? CFG members can benefit from free treasurer/trustee recruitment opportunities, and savings of up to £1535 on your organisation's other recruitment costs – in partnership with Third Sector Jobs.



## REDUCED TICKET PRICES

Reduced ticket prices for all CFG events, including training courses and conferences, providing opportunities to support your Continuing Professional Development.



## FORUMS

Come along to one of our Forums, which provide a way for CFG members to discuss key issues on topics like pensions or banking, and help us to understand any challenges you are facing.



## POLICY TEAM

Feed in your views to government on key issues. CFG's policy team tackles the subjects that affect you and your charity's ability to operate. CFG members have the opportunity to contribute to policy consultations and be kept informed about a wide range of issues.



**“ The networking opportunities that CFG provides are key to my membership. I value the opportunities to share knowledge and to learn from others in the sector who are dealing with similar issues ”**

## HELPLINES

Access free specialist advice from experts via our Helplines. Our free helplines cover a range of areas and allow you to speak directly to experts and receive advice specific to your organisation – free of charge.



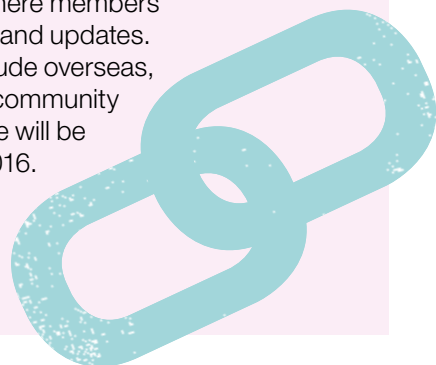
## MEMBERS' MEETINGS

Network at our free members' meetings, which cover a variety of topical themes throughout the year. They are a key way for charity finance professionals to meet each other and hear from a range of experts.



## SPECIAL INTEREST GROUPS

Our Special Interest Groups provide an opportunity for members to meet, share experiences and learn from others. We also have related LinkedIn groups, where members can post questions and updates. Current groups include overseas, large charities and community accounting - and we will be expanding this in 2016.



## ONLINE RESOURCES

Our website contains good practice guidance, briefings and publications – and members can access editable versions of all of the resources contained in this Handbook.



**Karen Atkinson**

*Acting Director of Finance, Prostate Cancer UK. CFG's Member of the Month for November 2015.*

Visit [www.cfg.org.uk](http://www.cfg.org.uk) for the latest member news.



# CFG EVENTS PROGRAMME

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

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

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

## CONFERENCES

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

*Conferences in 2016/17 include:*

### LARGE CHARITIES CONFERENCE

30 SEPTEMBER 2016, LONDON

This conference brings together senior finance professionals from charities with an income of over £10 million to debate key issues facing their organisations.

### COMMUNITY ACCOUNTING CONFERENCE

1–2 FEBRUARY 2017, BIRMINGHAM

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

### MANAGING PERFORMANCE AND CHANGE

19 JANUARY 2017, LONDON

This event will increase awareness of change management concepts and how to apply them for the best results to drive performance.

### ANNUAL CONFERENCE

26 MAY 2016, LONDON

The CFG Annual Conference offers fantastic opportunities to hear from inspirational speakers, gain practical advice, keep in touch with the latest sector updates, browse a comprehensive exhibition and network with your peers. The programme provides technical updates and practical guidance, as well as thought-provoking plenaries and inspiring case studies. [www.cfg.org.uk/ac16](http://www.cfg.org.uk/ac16)

### VAT AND TRADING CONFERENCE

15 SEPTEMBER 2016, LONDON

This event will help you to stay informed of the latest VAT and tax updates relevant to charities, as well as offering the opportunity to find out more about key considerations behind charity trading.

### GIFT AID CONFERENCE

FEBRUARY 2017, LONDON

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

### REGIONAL CONFERENCES

Our regional conferences take place in Manchester on 7 July 2016, in Bristol on 2 November 2016 and in Birmingham on 1 February 2017. They provide valuable updates relevant to the charity sector as a whole as well as focusing on key issues for each region.

### RISK AND FRAUD CONFERENCE

1 DECEMBER 2016, LONDON

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

### IT, DATA INSIGHT AND CYBER SECURITY CONFERENCE

9 MARCH 2017, LONDON

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

## TRAINING

*Our training courses take place in all four membership regions – London and the South East, the Midlands, the South West and Wales and the North of England. We run a large number of training courses at varying levels*

*covering a range of topic areas, from charity accounting and investment to IT and data protection, tax and trading, and HR and legal issues. Whether you're new to the charity sector or well established in your role, there's something for everyone. To view our full range of training courses throughout the year, please visit [www.cfg.org.uk/training](http://www.cfg.org.uk/training)*

### FOUNDATION CHARITY FINANCE

19 APRIL 2016, LONDON  
27 APRIL 2016, MANCHESTER  
20 SEPTEMBER 2016, BRISTOL  
5 OCTOBER 2016, LONDON  
19 OCTOBER 2016, MANCHESTER  
8 NOVEMBER 2016, BIRMINGHAM  
24 JANUARY 2017, LONDON

### ADVANCED CHARITY FINANCE

7 JUNE 2016, MANCHESTER  
14 JUNE 2016, LONDON  
22 NOVEMBER 2016, LONDON  
29 NOVEMBER 2016, MANCHESTER  
13 DECEMBER 2016, BRISTOL  
1 MARCH 2017, LONDON  
16 MARCH 2017, BIRMINGHAM

### FOUNDATION INVESTMENT TRAINING

12 MAY 2016, LONDON  
21 SEPTEMBER 2016, LONDON

### ADVANCED INVESTMENT TRAINING

6 JULY 2016, LONDON  
30 NOVEMBER 2016, LONDON

### TRADING AND THE LAW

9 JUNE 2016, LONDON

### GOOD CONTROLS AND PREVENTING FRAUD

18 MAY 2016, BIRMINGHAM  
16 JUNE 2016, BRISTOL  
28 SEPTEMBER 2016, LONDON  
16 NOVEMBER 2016, MANCHESTER  
8 MARCH 2017, LONDON

### AUDIT COMMITTEE TRAINING

1 NOVEMBER 2016, LONDON

### TRANSFORMING YOUR FINANCE FUNCTION

24 NOVEMBER 2016, BIRMINGHAM  
7 FEBRUARY 2017, LONDON  
21 FEBRUARY 2017, MANCHESTER  
2 MARCH 2017, BRISTOL

### CLOUD COMPUTING FOR CHARITIES

18 OCTOBER 2016, LONDON

### NEW FOR 2016

We also have a number of new courses running in 2016/17 covering HR, fundraising, procurement and more:

- How to avoid ending up in a tribunal (12 April 2016, London)
- Finance for fundraisers
- Finance for non-finance managers
- Pensions training
- Planning and budgeting training
- Procurement training
- Trustee finance training

Keep an eye on our website for details of dates and locations of new courses.

## MEMBERS' MEETINGS

*Our regular meetings provide opportunities for members to network and exchange experiences. All members' meetings are free of charge. CFG holds eleven meetings a year in London, and three each year in the North, Midlands and South West and Wales. Meetings are themed and cover issues from VAT, risk, IT – through to legal matters and HR.*

*To find out when the next members' meeting in your region is taking place, visit [www.cfg.org.uk/members-meetings](http://www.cfg.org.uk/members-meetings)*

### 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 runs annually and provides an opportunity for confidential

peer-to-peer learning and developing an ongoing support network for the future. The course is developed by Cass Business School Centre for Charity Effectiveness, Charity Finance Group and Sayer Vincent. The programme will be running from Autumn 2016.

# CFG'S BOARD OF TRUSTEES

CFG's Board of Trustees have responsibility for the running of the organisation.

The CFG constitution allows for a maximum of ten trustees; seven of whom must be CFG members and are 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, whereupon they can stand for election for a second three years, after which they must stand down for at least one 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 'strategy day'.

The below list is current as of the end of February 2016 – for the most up to date list of CFG Trustees, visit the 'About Us' section of [www.cfg.org.uk](http://www.cfg.org.uk).

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# ABOUT OUR CFG CORPORATE SUBSCRIBERS

**Charity Finance Group works with a wide range of experts from companies such as accountants, lawyers, banks, investment advisors, HR firms, insurance brokers and IT firms.**

Our corporate subscribers – which is what we call our corporate partners – provide valuable services to our members.

Over 140 firms pay an annual fee to be corporate subscribers of CFG.

Their combined expertise and knowledge makes a significant contribution to our work, and without their intellectual and financial support, we would not be able to provide the breadth and depth of services we currently do.

Our subscribers help us provide some of the following services for our members:

- Speakers for meetings and conferences
- Help with publications
- Running training courses
- Providing venues for our events and members' meetings.
- By sponsoring our events, CFG's subscribers also enable us to maintain our consistently low prices.

CFG does not explicitly endorse any of its subscriber companies. We

endeavour to have subscribers from across a variety of companies – both large and small, and across all business areas that are of relevance to our members.

If you are a member and seeking to select a company to provide you with a service, we recommend reading through the profiles provided by our subscribers and selecting a company that might be right for you. There are profiles of some of our subscribers in section thirteen of this publication, and all are listed online at [www.cfg.org.uk/corporate-partnership](http://www.cfg.org.uk/corporate-partnership).

In our publications and at our events, we aim to provide members with the

tools to help them make informed decisions about which professional advisers and suppliers to use. If you want more information about our relationships with our subscribers please do not hesitate to contact us.

There are many benefits for our subscribers too: from positioning a company as a trustworthy expert on charity finance, to having the opportunity to network with clients and potential clients at CFG meetings and events. If you are interested in applying to be a subscriber or collaborating with CFG, please contact our corporate partnerships team – their details follow.

**Dawn McNish**  
Partnerships Manager  
Dawn has worked at CFG since March 2011 and leads on relationships with subscribers and other sector bodies, to support CFG's output of events; publications; member services and policy work. Contact Dawn on [dawn.mcnish@cfg.org.uk](mailto:dawn.mcnish@cfg.org.uk)



**Sinéad Corcoran**  
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Sinéad has worked at CFG since September 2014, and works with Dawn to manage relationships with corporate subscribers and other relevant bodies. Sinéad has a background in law and is currently studying the Legal Practice Course part time. Contact Sinéad on [sinead.corcoran@cfg.org.uk](mailto:sinead.corcoran@cfg.org.uk)





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# 02

## WHAT'S ON THE HORIZON FOR 2016?



### IN THIS SECTION

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*Jay Kennedy, Directory of Social Change*

Prospects for 2016: A view on social finance  
*Ed Anderton, Access: The Foundation for Social Investment*

Moving towards meaningful transparency  
*Caron Bradshaw, Charity Finance Group*

What lies ahead for charities?  
*Andrew Studd and Chris Rowse, Russell-Cooke Solicitors*

# A CLOSER LOOK AT STATE AND CHARITY SECTOR RELATIONSHIPS IN 2016

## *The jumbled outlines of the new state-sector zeitgeist are coming into view, says Jay Kennedy.*

We know the Conservatives will be in power for four more years, and broadly what their spending plans and policy priorities are following the Spending Review. But what does this mean for charities?

At the risk of stating the obvious, this government (and the previous one to a lesser degree) has a discernibly different flavour about it to the New Labour era. It isn't all about the austerity agenda and the public finances, or that things were so fine and dandy under the supposedly fatter years prior to 2010. The Conservatives clearly place a high priority on business as the primary driver for prosperity, and view the state's role as facilitating that driver wherever possible. This can be seen across policy areas as diverse as devolution and planning, health, education, and even the environment.

There is a sense even that current Tory policy wishes to make local democracy subject (or subjugated) to business needs and priorities. Their view is that business innovates and is a force for progress; the state stagnates and hinders progress. They talk a lot about devolution and 'city deals' – which are an interesting proposition – but yet again the parameters of reform are determined

from the top down via financial incentives and disincentives.

For example, the Local Enterprise Partnerships introduced in the last parliament maximise business influence on decision-making. The ongoing reform of business rates will financially favour those councils which do the most to attract business investment. It's kind of the intranational version of when nations lower their corporation tax to attract big multinational corporations – trading tax revenues that support public services for jobs. In the eyes of the Chancellor and his cadre in particular (the heirs apparent), business has the expertise, the knowledge and the methods to drive progress, not the state.

## *But is there a role for charity in this paradigm?*

The Big Society project has long collapsed, and increasingly we're seeing a weird mash-up of conflicting narratives. It is less organised, less coherent than under New Labour. They were always big on the rhetoric of 'partnership' with the charity sector, even if the reality was more like they said 'jump' and we said 'how high?' and 'for how much?'.

Despite the Charities Bill moving through the House of Commons, charities are clearly not a policy priority for the new Government, if the lack of human and financial investment in the Charity Commission and the Office for Civil Society are anything to go by. It's as

though they really don't know what to do with us. We are the unruly children who keep making an irritating mess, getting in the way of the real business at hand.

On the one hand, the Conservatives' free market zeal nominally includes charities as potential players in public services reform. This might also extend to being a kind of punishment for laggardly state bureaucracies – the Prime Minister recently said that poorly performing local authority children's services might be taken over by charities or private providers (an approach likened by my colleague Kathy Evans of Children England to 'rearranging deckchairs on a fleet of torpedoed ships').

Ostensibly charities are meant to compete for contracts on a 'sector blind' playing field with the private sector, social enterprises, and ersatz mutuals spun-out of the public sector, but in reality the game is rigged to favour the big private firms. To compete, charities supposedly need to be entrepreneurialised – to coin a terrible phrase – i.e. learn to be more business-like. Yet oddly the people charged with showing them the promised land of the market are civil servants with little or no experience of generating income. Hence the litany of social investment programmes has become an end in itself, a costly kind of rhetorical advert for supposed 'social innovation', rather than an answer to real problems on the ground.

On the other hand, many Conservative politicians clearly take the view that charities are there to pick up the pieces of social failure, as well as running the village hall or cricket club, or the local operatic society, but they're not there to critique the root causes of that social failure – especially if those are created or exacerbated by government policy. Where charities' experience of public services reform is about frustration, soul-destroying bureaucracy and often losing in a rigged game, in this more elemental space it is a source of increasing tension and conflict.

Charities find themselves in the firing line of Ministers and certain back-benchers when they publish uncomfortable evidence about rising demand for food banks; when they raise inconvenient questions about human rights; when they highlight the inadequacy of work capability assessments for disabled people or the impact of welfare reforms on the vulnerable. And they are in the firing line for how they generate their income too. Charities are told they are not supposed to depend on the state (bizarrely, even as they are urged to compete for contracts?) especially if they campaign or critique policy, yet the new fundraising regulations will shrink public donations by untold amounts. Which is it? Do they think charities can run services on thin air? Or solely on trading?

Charities don't seem to occupy a clear role for policymakers anymore. Does this matter? One can argue (and DSC did) that Labour's rather instrumentalist or utilitarian approach to our sector wasn't healthy either.

They had an agenda for the sector, framed by their own statist world view. They spent a lot of money, often badly, trying to put that agenda in place. If current policy exhibited a kind of benign confusion, that might not be so bad. But it isn't benign.

Setting aside the periodic state philanthropy doled out by the Chancellor in individual nuggets at Budget time, typically to charities serving people in some kind of uniform, much of current government policy towards charity is downright hostile. Long gone are the days of Labour's lip service to 'partnership'. The Minister for Civil Society and the Chair of the Charity Commission appear primarily as critics of charity, not proponents or advocates. They talk about charities needing to 'clean up their act' and 'put their house in order' – as if there were somehow a unifying current of behaviour across several hundred thousand independent civil society organisations and a million trustees. They seem to listen to the press more than anyone.

Could we imagine the Business Secretary saying that 'business needs to put its house in order'? No. Yet in the same period as the fundraising 'crisis' we have continued to have banking scandal upon banking scandal. Those scandals are as unrepresentative of all businesses as the fundraising scandal is of all charities.

There is no discernible policy agenda to boost charitable giving or volunteering for example, nor a genuine effort to improve charity governance. Policy discourse is

dominated by increasing regulatory controls and curtailing charity independence. Rather than strengthening the civil society that will have to mop up the pieces and fill in the gaps as the state is eroded away, our so-called leaders are spending most of their time chipping away at its foundations.

In the face of depressing headlines and political antipathy, we must not lose our belief and our dedication to our beneficiaries. We must persevere in the face of adversity. We must keep on reminding the public of social needs. We must innovate and come up with new models and new solutions. And we must campaign, speak out and fight back when our sector is under attack. Governments come and go. So will this bunch. As we enter a new year, it's crucial that we don't lose our faith – that what we do is right and good and vital for society.

## **Jay Kennedy**

*Director of Policy and Research,  
Directory of Social Change*



**“ In the face of depressing headlines and political antipathy, we must not lose our belief and our dedication to our beneficiaries ”**



# PROSPECTS FOR 2016: A VIEW ON SOCIAL FINANCE

*Ed Anderton considers the challenge of supporting social organisations to take on repayable finance, and how Access - The Foundation for Social Investment are looking to support them.*

Our year will be, as our name implies, focused on social investment. Created with the backing of Big Society Capital, Big Lottery Fund and the Cabinet Office, our small but perfectly formed team are charged with delivering a £100million plus programme, over the next 10 years, to make social investment work for smaller and earlier stage social organisations.

We have two programmes, both of which will be getting fully underway over the course of 2016.

Firstly, there's the Growth Fund, which will establish 15-20 loan funds, run by a variety of organisations, providing loans up to a maximum of £150,000. These deals will combine debt provided by Big Society Capital with our grant funds from Big Lottery Fund, although some deals may not include a grant component. For those that do, the maximum ratio permitted will be 50:50. So for example, £1million in debt might be combined with a maximum of £1million in grant funds. The grant can be used for three purposes: a) to contribute to

“our aim is to be a bridge between the constraints and unpredictability of grant-funding and the resilience and independence organisations can win for themselves through diversifying and generating their own income”

the fund manager's operating costs b) to blend with the debt to cover losses in the fund and c) to be passed on as a grant to an investee organisation.

Alongside this, the £60million endowment will be spent down over the next 10 years, on grant-funded programmes to provide capacity building for charities and social enterprises who are seriously considering taking on repayable finance (again, typically for the first time). Since July 2015, we have been running an open consultation with the sector, to inform our strategy: you can follow how we went about this via this series of blog posts at <http://access-socialinvestment.org.uk/blog>.

Together, these programmes are designed to test, from a number of different angles, how grant funding can be combined with repayable finance in order to 'open up' social investment for a wide range of social organisations. Indeed, a crucial aspect of 'getting it right' for us, and our delivery partners, will be to quickly and accurately identify an organisation's potential for profitably pursuing repayable finance.

We use 'profit' here with all of its shades of meaning: our interest is in those business models which can generate both financial and social value. This does not imply any criticism of organisations who find

grant-funding and donations to be the most realistic choice. Indeed, part of how we wish to contribute to the sector's understanding of itself is to provide rich evidence for the value created at different stages along the 'philanthropic spectrum', from grants and donations, to blended finance, through to social/impact investment which may be – directly or indirectly – subsidised by grant-funded programmes such as Big Potential.

On this spectrum, our aim is to be a bridge between the constraints and unpredictability of grant-funding and the resilience and independence organisations can win for themselves through diversifying and generating their own income. For some, there may be a happy and stable medium, in which they combine thoughtful grant-application and fundraising alongside trading and managing an asset like a community building. For others, there may be a natural progression towards growth and operating at scale. The challenge for the latter may be to retain (and be seen to retain) the values upon which they were founded, as they inevitably take on some of the characteristics of purely commercial organisations.

For this reason and many others, we must also have an eye to implications of our work for the private sector. Already there is a clear trend towards commercial

organisations seeking to understand and implement 'social practices', driven by market opportunity, consumer demand or personal commitment. From Fairtrade through to B-Corps, social can and has become mainstream. As we seek to support social organisations to better understand and articulate their impact, the commercial world will be, increasingly, finding reason to do the same. If played astutely, this in itself represents a huge growth opportunity for our sector.

Meanwhile: back to 2016, we're pleased to see the environment in which we're operating developing around us in a supportive way. Big Society Capital's Transparency initiative – which will see them publish standard data across their portfolio for the first time – is a significant step towards building a better 'shared picture' of social investment. They'll also continue to support the take-up of Social Investment Tax Relief (SITR): hopefully this will be a growing source of

investment for Charities and Social Enterprises in the coming year.

We'll also be looking at how the wide and varied world of crowdfunding and crowd-investment continues to develop. There may be potential for community-sourced funds – whether raised via the likes of Spacehive or a Community Shares offer – to be blended in different ways with funds from both grant-funders and social investors.

With their investment readiness programme, Big Potential, continuing to run through 2016, Big Lottery Fund are providing us with a valuable source of insight into our wider market. We're hoping to return the favour, as our programmes get up and running, and begin to generate a useful evidence base to inform their strategy for what comes next.

2016 will be one tenth of our entire existence – having been founded to exist for 10 years and no more, our work is usefully constrained: in order to fulfil our purpose we must operate

through others, and seek at every turn to make ourselves dispensable. Success, ultimately, will consist in working through how this bridge needs to be constructed, and demonstrating how others – funders, investors, government, delivery organisations – can continue to be bridge-builders long after Access has ceased to exist.

**Ed Anderton**

*Strategy and Policy Manager, Access: The Foundation for Social Investment*



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PRECISE. PROVEN. PERFORMANCE.



# MOVING TOWARDS MEANINGFUL TRANSPARENCY

*Most in the charity sector agree that transparency is a good thing. But it's a complex area, and differences of opinion exist on what charities should be doing to achieve transparency. So what does transparency mean to you?*

When I think of transparency I think of openness, and of being accountable to our supporters and beneficiaries. To me, transparency means being accessible and clear. It means operating in a way that makes it easy for others to see what actions are being performed, so stakeholders can understand what's going on, and gain greater clarity.

I like to think of it in the material sense. To me, transparency should be about telling our story in a way that is not obscured, that there is no intervening material preventing our stakeholders from seeing what we do. Yet when we talk about charities being transparent, increasingly we are talking about disclosure, about releasing data, and about pushing information out.

Information needs to be meaningful to beneficiaries, and to donors. I don't believe transparency should equate to just publishing everything – there's not much point in releasing huge volumes of raw data if no one

understands what it means or how it matters.

There's a perception that being transparent means making all of our data public; and that we should be sharing more and more information. Many in the sector seem to hold the opinion that any argument contrary to this has already been lost – and that failure to agree with this version of 'transparency' is 'anti-transparent' and not in the public interest. I disagree! I simply think that raw data cannot and should not provide all the answers; whether it is about pay, income, investments, efficiency or anything else. Rather, it is the narrative that sits alongside the information and data that aids understanding.

As charities, we should be willing to answer questions, and be able to release information that is meaningful. The information we disclose to our stakeholders should help them to ask the questions they need in order to deepen their connection with us, to appreciate our achievements and identify where we need to do more. Simply publishing a spreadsheet or a

fundraising ratio without any narrative can never do that.

Even if the majority of the public want to know something or want a particular outcome, this does not mean that the action or information is in the 'public interest'.

Justifying publishing more and more data on the grounds of 'public interest' collapses if that justification is in fact based on public curiosity. Popular appetites for gossip and scandal are not the same thing; rather public interest is about the good of society, the welfare or wellbeing of the general public.

The ICAEW, in its publication 'Acting in the Public Interest' says: 'The public interest is an abstract notion. Asserting that an action is in the public interest involves setting oneself up in judgement as to whether the action or requirement to change behaviour will benefit the public overall – a far greater set of people than can be interacted with directly. It involves interference in people's ability to go about their business or sometimes, as a positive policy decision, non-interference in the face of alternative actions.'

“Transparency can be a bit of a double-edged sword”

“Charities should be willing to answer questions, and be able to release information that is meaningful”

Transparency can be a bit of a double edged sword. Most people are genuinely interested and want to find out more about the charities they support – but occasionally the interest in what we do, and why we do it, isn't driven by the desire to understand and support the charity sector. It's sometimes driven by a desire to 'dish the dirt', or – dare I say it – to silence charities that are speaking truth to power, and speaking out in relation to the challenges faced by their beneficiaries.

It is also worth considering that in both releasing information and in failing to do so, we can become the subject of negative interest.

Some charities have come under a lot of criticism in the media recently after releasing information, because it's been considered that they're not spending enough of their donors' money on the 'cause'. Donors don't always understand that as a charity, you can't spend all of the money you raise immediately – in fact holding back some money to ensure long term stability can be the best option. It's also vital to ensure that we have robust systems and processes in place – which doesn't come for free. Perhaps we need to work at being better at communicating this rather than simply rushing to release information.

Charities should be willing to answer any questions that a stakeholder poses (within reasonable boundaries of safety, security and privacy). But I challenge the assertion that even if

disclosure is not required, best practice dictates that we should have nothing to hide and thus should go above and beyond what the law or guidance requires.

I also do not believe that how transparent an organisation is should be dictated by how palatable the information we have is to our cause, to our supporters, to our staff, and to us. I fundamentally believe that transparency is the bedrock of trust.

The Charities Statement of Recommended Practice (SORP) tries to balance burden and benefit. It is not there to protect charities from the need to release unpalatable information – but nor does it impose disclosure requirements because of public curiosity. As a sector we need to ensure that we weigh disclosure against burden, because unless the benefit of mandating disclosure outweighs the burden caused in making it, charity resources are wasted.

There is also a risk that mandating the disclosure of certain information will have an adverse impact on small charities. I think it's important to have a 'small first' mind set, which the SORP has attempted to do. This ensures that most charities are not over-burdened with mandatory disclosures that return little real benefit to anyone.

A charity's annual report and accounts should be clear about what they exist to achieve, what they did throughout the year and how

their finances stack up – what was raised, spent and invested. But however well-written these documents and disclosures are, they do not offer all the answers; they merely signpost a range of questions.

Charities should work toward being able to provide a meaningful narrative to accompany the information and data they are releasing. This will help beneficiaries and stakeholders to better understand what impact the charity is having, and what questions should be asked of the charity, if needed.

Transparency is therefore a qualitative game and not a quantitative one.

**Caron Bradshaw**  
Chief Executive Officer,  
Charity Finance Group



## WHAT LIES AHEAD FOR CHARITIES?

*Andrew Studd and Chris Rowse take a closer look at some of the big issues for charities from 2015, and speculate on what they will need to look out for throughout 2016.*

The voluntary and community sector has been under increasing pressure from external forces. Charities have faced rising demand from beneficiaries in times of cuts in funding of public services. The scaling back of the State has meant a significant change in the commissioning environment in which many "service delivery" charities operate. And the sector has been facing greater scrutiny and criticism from the press, politicians and public, forcing a change in the way the Charity Commission approaches its regulatory functions.

### *A changing commissioning environment*

There has been a well-discussed shift in public funding from grants to contracts. As public bodies seek to reduce their contract management costs they have issued larger contracts or have bundled services together and required a consortia approach to service delivery. Many charities continue to find engaging with these arrangements complex and costly.

More contracts also involve a payment by results model, with mixed reviews. Some, usually larger, charities have managed to expand their activities, but others are concerned by the cash-flow issues and false incentives that such contracts can create. The introduction of social finance to help de-risk contracts or fund cash-flow adds further complexity. We expect to continue to see larger contracts, more of which will involve collaborative working, payment-by-results and some external finance.

Trustees and executive teams of small and medium sized service delivery charities will need to consider their strategies for dealing with changes to their "markets". Will the "generalist" survive? Or will they have to shrink to focus on their core specialist activities, perhaps in a limited geography, or scale up so they can act as lead in bidding consortia?

For many years there have been discussions about mergers (or lack

thereof!) in the sector. The changing environment may well lead charities to consider this more closely as an effective strategy to deliver for their beneficiaries over and above organisational sustainability. However they need to start the journey of building connections and trust well before their current contracts expire. We expect to see the continued use of "group structures" to preserve the unique skills of smaller charities within a larger grouping.

### *Ongoing public scrutiny*

Charities have historically been a trusted "brand" which delivered not only fiscal benefits but a certain status. They were assumed to be "good". Following the Cup Trust case, where a charity was alleged to have been set up to abuse the Gift Aid regime, the press has shown an increased interest in challenging individual charities and the sector as

“ Trustees should consider how their decisions might be analysed on the front page of a newspaper ”

“ The voluntary and community sector has been under increasing pressure from external forces ”

a whole. Stories about chief executive pay, the misuse of data and aggressive fundraising practices have all denuded trust in the sector, and in its regulator.

The collapse of Kids Company provided a feast for the media, particularly given the award of a £3million Government grant just days before its collapse. These stories remind us that the sector's collective reputation is threatened. Hard won reputations can be lost in a day. According to research recently published by nfpSynergy, charities have fallen to 12th in the list of most trusted organisations in the UK, below supermarkets.

The Charity Commission, funders, donors and the wider public expect accountability and transparency. Charities will have to be more open and smarter about how they disclose and present information to reduce the risk of information being misinterpreted and used to make unfair criticism. Umbrella bodies must be expected to take on issues that affect the sector more widely. Having a comprehensive media strategy and reputation management plan in place has never been more important.

### *A more active Charity Commission*

The Charity Commission is now focussed on its role as a regulator and less as provider of assistance to trustees. Its main objective is to

maintain trust and confidence in charities and it is clear from its public statements that it intends to achieve this by more effective regulation. The figures tell the story – in 2011/12 the Commission used its legal powers 188 times. In 2014/15 this was 1,060 times. During the same period the number of statutory inquiries opened by the Commission rose from 12 to 103.

Emphasis on robust regulation is set to continue. The Charities (Protection and Social Investment) Bill, currently going through Parliament, will include new powers for the Commission to issue official warnings and disqualify individuals from charity trusteeships. When issues are brought to its attention, the Commission is now more likely to raise enquiries and take a more proactive and interventionist approach.

Charities need to be prepared to engage constructively with the Commission and justify their decisions. The Commission will not interpose its own view of trustees' decisions, but will expect to see the reasoning for a decision, so that it can assess whether it was a reasonable approach to take in the circumstances. Full and well written Board minutes are essential as a first line of response to these sorts of enquiries.

The opening of a compliance case or inquiry is announced on the Commission's website and will be picked up by the press. Trustees should consider how their decisions might be analysed on the front page of a newspaper.

These issues are leading to a new focus on risk and governance, in particular the management of conflicts of interest. The Commission updated its guidance for charity trustees, The Essential Trustee (CC3), making it clear that it expects trustees not just to comply with legal duties, but to follow best practice. It is important that charity trustees are up to speed with their duties and responsibilities.

### *A new regime for fundraising*

There will be a significant change to the self-regulation of fundraising over the next few years. Sir Stuart Etherington's review recommended the establishment of a new Fundraising Regulator, funded by the larger fundraising charities, and a "fundraising preference service" to enable people to 'reset' their charity marketing preferences.

The recommendations have been accepted by the Government and it is intended that the Fundraising Regulator will be established by Summer 2016. There are however concerns about some of the recommendations and the timetable for implementation, in particular how the fundraising preference service will work and how poor practice by one charity could prevent other charities contacting donors who opt-out.

Linked with this, and to public concerns with data security following cyber-attacks on

organisations such as TalkTalk, will be an increasing focus on data protection. Fundraising charities need to prepare for greater regulation of fundraising activities and data management. Many charities are expecting a drop in income from some fundraising activities as a result, in part because some fundraising agencies have collapsed. Our view is that the inherent entrepreneurship found in many charities will see the development of new fundraising channels and techniques.

**Andrew Studd**  
Partner, Russell-Cooke Solicitors



**Chris Rowse**  
Senior Associate, Russell-Cooke Solicitors



“There will be a significant change to the self-regulation of fundraising over the next few years”

# 03

## ACCOUNTING AND AUDIT

### IN THIS SECTION

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# WHY GETTING YOUR REPORTING RIGHT HAS NEVER BEEN SO IMPORTANT

*Nigel Davies writes about the absolute importance of getting your external reporting right, and how the SORP Committee will be working throughout 2016 to learn from the reporting experience of charities.*

If reporting and accounting is to be meaningful and useful it has to be relevant and serve a purpose. Accountants and book-keepers will be well versed in the differences between internal financial reporting (management accounting) and external reporting (financial accounting). Management accounting meets the internal needs of the trustees and staff operating the charity throughout the year whereas financial accounting has an external focus, reporting to outsiders about the operations of the charity at the end of the year.

UK Generally Accepted Accounting Practice (GAAP) and the charities Statement of Recommended Practice (SORP) provide the framework for external reporting – it is all about telling your charity's story to others. To be relevant, the charity trustees need to consider what the needs of the external audience are. The new SORPs, effective from 1 January 2015, encourage this focus on 'who wants to know and what do they want to know'?

There is a great deal of evidence about what the public want to know. Research by IPSOS-MORI for the Charity Commission for England and Wales (the Commission) shows that 96% of those asked say it is important to them that charities provide the public with information about how they spend their money. A similar proportion say it is crucial that charities demonstrate how they benefit the public.

At its core, external charity reporting and accounting is about public benefit. Resources are used for public benefit. Cash-flows are a resource, along with non-cash items – for example volunteer time and gifted non-cash assets. The value of these assets is derived from their service potential which is the capability to deliver the capacity/volume/frequency of public benefit. Liabilities are sought out by way of making grants and gifts (non-exchange transactions) and these liabilities arise from undertaking a public benefit purpose. Financial sustainability, the capacity to continue delivering public benefit, is what charities are about.

True, a small number of grant-makers may be spending out, but even then their grant recipients need to know how long they can support them. A charity's performance standard should be how effective they are at delivering public benefit.

*Sadly, too many charities still don't get it.*

Too many charities remain poor performers when reporting externally. Research by the Commission, reported in 2015, indicates that only two thirds of charities achieve a minimum standard for the quality of their reporting. Even fewer, only a third of charities, report well on public benefit. The indications are that the smaller the charity, the poorer the quality of reporting, and so a contributory factor may be a skills gap in the sector. However, it remains disappointing that, 20 years on from SORP 1995, the sector is still not getting the basics right. It is a credit to those charities that do report well, as you get it and, in getting it, you tell your charity's story well.

The evidence points to a disappointing conclusion. Too many charities do not invest in reporting well: perhaps treating the trustees' annual report and accounts as a compliance exercise. In the digital age this is a foolish thing to do for two reasons. Firstly, it arguably says a lot about the trustee's view of their donors, funders, beneficiaries and wider stakeholders – simply that they don't deserve to know how your charity spent its money and what difference you made with it. Secondly in the digital age, your charity's filed reports and accounts are available to the world, so it is an opportunity missed to tell your charity's story well, engage the reader and gain their interest in

working with you in making that difference. Over 60,000 charities have to file accounts every year with the Commission. In the 6 months to July 2015, the 'view accounts' pages on the Commission's website were viewed 530,374 times. That's 1 million views a year – who says no one looks at your charity's accounts?

## Looking to the future and staying relevant

The thing about the SORP is that no sooner than you have published a new one, then you begin work on the next. This is not so much changes for changes sake, but a reflection that the charity world is constantly changing. Reporting and accounting, if it is to be relevant, must speak to the social, economic, political and environmental context that charities work and serve in. Put simply, the SORP evolves alongside you.

The charities SORP-making body and SORP Committee will embark on a dialogue throughout 2016 to seek your views to inform future SORPs. We plan to look at several themes and trust you'll give your views on:

- How well did the new SORPs perform in better meeting the needs of smaller charities?
- What are the emerging reporting issues that need addressing?
- What can be taken out of the SORP or simplified?

“ Reporting and accounting, if it is to be relevant, must speak to the social, economic, political and environmental context that charities work and serve in ”

- What changes are needed to deal with implementation issues from the new SORPs and improve the explanations given or clarity of wording?

The aim is to identify changes for next time so that we can work on them in advance and then consult with you on our proposals, probably in the run up to 2019. The SORP works on consensus and so by having a conversation with you now, we know what we need to look at. Lone voices tend to get missed in the formal SORP consultation exercise, which is about the overall body of responses providing evidence to support change. In the research dialogue lone voices may be a spur for innovation and reflection. So do take the chance to have your say.

## Investing in the digital age

Alongside this research, in 2016 the Commission will be looking to invest in enabling charities to file their accounts digitally.

The for-profit world is already ahead of us, with 72% of companies filing digitally with Companies House – thereby making their report and accounts very accessible to digital searches and enquiries. A digital divide is opening up, and charities

look to be the wrong side of it. To invest in this technology, we need reassurance that the charity sector will go with it. At its heart is this question: how open and transparent are charities prepared to be with their funders, beneficiaries and stakeholders?

The charity sector is indeed at the heart of civil society, it pre-dated the Commission and it endures because it serves the needs of the public, your beneficiaries. Our hope is that you will invest in telling your story well. In the digital age, to do anything less, sells you, your volunteers, your charity and ultimately your charity's beneficiaries short.

**Nigel Davies**

Joint Chair of the Charities SORP Committee



# THE NEW CHARITIES SORP: KEY CHANGES

*For accounting periods beginning on or after 1 January 2015, charities will be required to report under FRS 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland – and the new Charities SORP which was published in July 2014. Naziar Hashemi runs through the key changes.*

Section 35 of FRS 102 sets out how an entity prepares its first financial statements that conform to this standard. The key requirements will be the restatement of the opening balance sheet at the date of transition (i.e. for charities with a 31 December year end, the transition date will be 1 January 2014. The comparative balance sheet (i.e. at 31 December 2014) will also need to be restated in accordance with FRS 102. The opening balance sheet does not need to be published but will be needed to allow the restatement of the results for the comparative year.

More details on the new Charity SORP can be seen on the Charity Commission SORP website: [www.charitysorp.org](http://www.charitysorp.org).

## Areas of restatement and disclosure

This article considers certain specific areas which may lead to changes to a charity's balance sheet position, its results in subsequent periods and/or certain of its disclosures. However, it is not a substitute for reading the full SORP and it is possible to create a SORP version with just the relevant modules.

### SoFA presentation

The SORP simplifies the presentation in the SoFA, with four incoming resource headings (donations, earned income split between income earned from charitable activities and other activities, and investment and other income). There is a similar simplification of expenditure headings with three headings (fundraising costs, expenditure on charitable activities and other expenditure). However, it will be necessary to represent the relevant amounts under the new SoFA headings.

There will no longer be a requirement to disclose governance costs on the face of the SoFA. These costs will instead be disclosed in the notes as a component of support costs. Comparatives will be needed for all the numbers in the SoFA but these can be presented in the notes.

### Cash flow statement

The format of cash flow statements have been simplified with cash flows

being identified as resulting from operating activities, financing activities and investment activities, as opposed to the eight different categories currently used in FRS 1.

### Tangible fixed assets

At the transition date charities can opt to revalue fixed assets to "fair value". That fair value is then taken to be the "deemed cost" of the item. This is a one off opportunity and charities can choose to revalue any items and there will be no need for regular revaluations.

### Income recognition

FRS 102 takes account of the probability that future economic benefit associated with the item will flow to or from the entity (i.e. more likely than not). This is not likely to impact on most charities and existing treatments for income recognition including legacies can remain unchanged.

### Employee benefits

Any material employee benefits which the staff are contractually entitled to, such as holiday, time off in lieu etc. at the year-end and not taken will need to be accrued on the charity's Balance Sheet.

Charities reporting under FRS 102 must disclose the total amount of employee benefits received by its key management personnel for their services to the charity. This will include pension costs.

# “FRS 102 requires substantially more disclosures and the associated risks required in the financial statements”

## Finance and operating leases

FRS 102 makes no significant changes to lease accounting. Leases will still be capitalised as finance leases if substantially all the risks and rewards of ownership are transferred. The current 90% of value test will no longer be required. If leases do not meet the definition of a finance lease, they will be classified as an operating lease with the rent going through the SoFA. However, there will be substantial changes to the disclosures required. On first time adoption, charities have the option to reassess whether any lease arrangements are finance lease or operating leases based on the facts at the transition date.

Under FRS 102, lease incentive received will be spread over the most likely term of the lease.

### Foreign Currency

Accounting for foreign currency in FRS 102 will largely be unchanged. The standard introduces the concept of a functional currency. This is the currency in which an entity carries out most of its activity. The presentational currency is the currency in which the financial statements are presented.

### Financial instruments

Financial instruments, such as interest rate swaps or forward foreign currency contracts, will be required by FRS 102 to be included on the Balance Sheet for the first time which could have a direct

impact on the reported surplus/deficit. Financial instruments are initially recognised at fair value, which is normally the transaction price, and are subsequently re-measured at fair value with any changes in the fair value recorded in the SoFA.

FRS 102 also requires substantially more disclosures and the associated risks required in the financial statements.

### Consolidated accounts

The process for determining how control is identified has been clarified under the new SORP which may impact on deciding which entities are subsidiaries. Organisations may need to consider the present treatment of the different entities within their consolidated accounts.

Subsidiaries may continue to be excluded from consolidation where there are severe long term restrictions in an organisation's ability to exercise control.

### Accounting for branches

The rules for branch accounting and what is a branch are unchanged. SORP 2015 emphasises that entities that are incorporated should be accounted for as subsidiaries. This was a requirement of SORP 2005 but it is important to recognise that being registered is not the same as being incorporated. So branches that are registered overseas can continue to be treated as branches if they are not incorporated.

### Accounting for subsidiaries

FRS 102 allows a choice, in the parent entity level accounts, of the measurement basis for the investments in subsidiaries. The investments may be carried at cost or at fair value with changes through profit and loss.

### Pension reporting under FRS 102

For charities which participate in multi-employer defined benefit pension schemes, the accounting has been refined. Under FRS 102 if an employer has entered into an agreement with the multi-employer plan that determines how the entity will fund a deficit, the entity will be required to recognise the present value of the contributions payable from this agreement as a liability on its balance sheet.

For charities with continuing defined benefits pension scheme liabilities, there will be some potentially significant differences between the current FRS 17 accounting requirements and the approach to pensions accounting required under FRS 102.

The main difference for the future reporting under FRS 102 relates to the calculation of the pensions net financing cost. This cost currently comprises the net of the expected returns on the scheme assets as determined by the actuary and an estimated interest cost on the scheme liabilities. Currently the assumed rate of return on the assets is usually significantly higher than rate of "interest" on the liabilities.



However, under FRS 102 the expected return on assets will be calculated using the discount rate so that no credit is taken for the expected outperformance on the Plan assets.

There are also differences in the treatment of any surpluses under the two standards should this become relevant in the future.

### Transitional disclosures

FRS 102 requires the presentation of reconciliations of a charity's funds as determined in accordance with the previous financial reporting framework and its funds determined in accordance with FRS 102 at two dates:

- (a) The date of transition to FRS 102; and
- (b) The end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.

FRS 102 also requires the presentation of a reconciliation of "profit or loss" determined in accordance with its previous financial reporting framework and reported in the entity's most recent annual financial statements to its profit or loss determined in accordance with FRS 102 for the same period.

**Naziar Hashemi**

Not for Profit Audit Partner,  
Crowe Clark Whitehill



## Supporting charities

Saffery Champness is the 12th largest firm of chartered accountants in the UK, with a team dedicated to advising charities and other not-for-profits.

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To find out more about how we could work together, please contact: Liz Hazell, T: +44 (0)20 7841 4000 or E: [liz.hazell@saffery.com](mailto:liz.hazell@saffery.com).

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CHARTERED ACCOUNTANTS

## GETTING TO GRIPS WITH CHANGES TO AUDIT THRESHOLDS

*Don Bawtree highlights issues that trustees may want to consider as a result of 2015's changes to audit thresholds.*

Changes to audit thresholds came into effect at short notice in March 2015. With effect from 31 March 2015 year end, the charity audit threshold increased to an income level of £1 million. The balance sheet threshold remains unchanged.

The previous limit was £500,000, and so this brings some quite substantial charities into the Independent Examination regime. To maintain consistency with the audit threshold, with effect from the same date, group accounts are not required under the £1 million income threshold. As before, if a charity's income exceeds £250,000 then the examination needs to be carried out by a suitably qualified person.

The same rule change introduced two new organisations to the list of approved qualifications for independent examiners: the Institute of Financial Accountants and the Certified Public Accountants Association. The question that therefore arises is whether charities affected by this change should opt for an audit or not.

Issues trustees may want to consider include:

- **Is the charity registered with the OSCR (the Scottish charity regulator)?**

If so, an audit will still be required under Scottish law if income is over £500,000.

- **Are there any other requirements for an audit?**

These could be imposed by a funder, a bank, or by the governing document. Whatever these say, it will always be worth a discussion to explore the exact nature of the requirement.

- **Does the charity derive real benefit from the audit, considering the cost?**

Clearly cost will be a factor and trustees will need to obtain quotes for an examination as a basis for a decision.

In an audit, the auditor is expressing their own opinion on the truth and fairness of the accounts, based on a risk assessed approach to the work, driven by International Auditing

Standards and the official guidance issued by the Financial Reporting Council as Practice Note 11. The auditor determines what work they need to do, and will discuss this with the trustees both before and after the audit.

The examiner, on the other hand, has a prescribed series of directions to follow, issued by the regulator. Both the auditor and the examiner have to maintain independence, have whistleblowing duties and focus on material items in particular.

A major distinction between the two regimes is that an independent examination does not go into such detail and is primarily concerned with agreeing the accounts to the accounting records themselves, as well as checking that the presentation of the accounts complies with the Statement of Recommended Practice (SORP).

There is no statutory requirement for examiners to consider the control

**“ With effect from 31 March 2015 year end, the charity audit threshold increased to an income level of £1 million ”**



environment or even to inspect source documentation, although they often will do so. Trustees can, therefore, expect to derive more comfort from an audit than from an examination.

There was much discussion when these proposals were mooted that they represented a substantial downgrading of the sector's governance and assurance framework.

However, it was probably inevitable that the threshold would increase at some point: especially as the commercial equivalent now sits at £6.5 million and will increase to £10.2 million from 2016. As a result, smaller accounting firms are withdrawing from the audit market entirely, because smaller businesses no longer need them. This in itself creates a dearth of available audit firms with enough expertise.

It is of course up to the trustees whether or not they change to an independent examination. For many it will be a welcome cost saving

compared to a service that they had no, or little need for. For others the higher standard of financial governance will be important and retained as a 'badge' of propriety.

With larger charities in the examination framework, it might be the time for the regulators to refresh the guidance on independent examination to make sure it remains fit for purpose, especially for more complex charities. Such a refresh would be timely as all the new charities now in scope will also be adopting the new SORP this year, and in addition the Charity Commission are likely to revise the serious incident reporting guidance. A refresh could therefore tackle several topics at once.

It would probably be timely to revisit the audit Practice Note too. But in the meantime, it would be most welcome if the various UK regulators could find a way to harmonise the thresholds to try to simplify what is already a fiendishly complicated financial reporting regulatory

framework. Sadly, that is probably wishful thinking.

*This article originally appeared in Finance Focus magazine, June 2015.*

**Don Bawtree**  
Partner, BDO LLP



*Don Bawtree will be delivering another session of CFG's popular **Audit Committee Training** on 1 November 2016 in London.*

“it would be most welcome if the various UK regulators could find a way to harmonise the thresholds”

## CHOOSING ACCOUNTING SOFTWARE

“Replacing like with like, but better, may not be the best solution any more”

*Thinking of improving your accounting systems but don't know where to start? David Membrey of Adapta Consulting talks through the key things to consider.*

What's almost more important than the accounting package you choose? Knowing when to choose it.

There may be nothing wrong with the one you're using now: it might do just what you expect it to do, and be serving you well. But don't wait until the software no longer works for you, or is no longer supported, before you look into what might replace it.

Depending on how long your existing arrangements have been in place, you might notice significant changes in the current marketplace. Replacing like with like, but better, may not be the best solution any more. There has been a clear shift over the last few years for charities to look for and find solutions that are broader and deeper, with functionality that goes way beyond core financials such as procurement, expenses management, billing and budgeting, as well as providing options around access to the system, data and reporting.

Additionally, many of today's packages make it possible (even easy) for teams to generate many of the reports required – so budgeting, forecasting and monitoring can

become a seamless process throughout your organisation.

### Identifying requirements: how to decide what you need

Giving time and consideration to the choice of a major investment before it turns into a panic buy will clearly produce better dividends in the long run.

As your next three to five year strategic plan is completed, then is the time to start thinking about whether your existing system will be robust enough to deliver the targets. Will it be able to cope with plans for growth and changing organisational structure? Find out from vendors, other charities, consultants or third-party providers what the most recent technological features include and how they could help you become more effective and efficient.

Although it's important to get the right technology, the actual choice of system should be business-driven, rather than technology-led. Issues such as underlying architecture, cloud or package systems are really

secondary to getting something that helps drive your organisation forward.

Finance systems are no longer just tools for the finance department, but are an organisational tool that impacts all parts of the charity. So it follows that all areas of the charity need to be involved in helping to draw up a 'wish list' or requirements specification for the new system to make sure it really does what you want it to.

When you have some idea of what would be useful, have a look around at the available systems. There are a number of places you can go for help. Adapta has produced an up-to-date review of the wide range of software available to all sizes of charities: see the resources section of [www.adaptaconsulting.co.uk](http://www.adaptaconsulting.co.uk).

### Choosing the right system

Most systems have a range of interesting and potentially useful features. However, not all of these will be relevant for your organisation – hence, it is usually a good idea to focus on those features that best meet your organisation's specific requirements. For example, levels of analysis, multiple budgets/forecasts,

“Finance systems are no longer just tools for the finance department, but are an organisational tool that impacts all parts of the charity”

multi-company in one ledger, multicurrency, flexibility of reporting, ease of access by non-finance staff. Think about the extent to which you want the system to provide any non-finance functionality such as expenses management or time sheets.

Some systems still have limited project accounting capability. However, increasingly, they offer multi-year access that gives the flexibility to produce reports across financial years. Flexibility of reporting is essential in today's organisations.

All systems will be set up with standard reporting, but not necessarily the information you need in the format you need it, or may give you too much information so you can't extrapolate the bits you do want. You need to have the right built-in reports and the skills internally to adapt and add to them without having to get expensive external help whenever you need a new one. It is also important to know what kind of analysis you need, the key things you need to analyse by – such as restricted funding. You might need analysis by country, region, funder, project type (children, environment, health), and by the project itself.

Price is always going to be important, but in these times of austerity, budgets are tight and value for money will have an even greater influence over your decision. If you are looking for a solution that will underpin the organisation for a minimum of the next five years (and some

organisations are looking at a minimum of 10 years), then you have to be prepared to invest.

Many charities are looking at alternative systems, talking to vendors and reviewing functionality and ease of use first, and then collecting costs to build a likely project budget to present to trustees for agreement. This might be a slightly more time consuming way of planning, but lessens risk for both purchaser and vendor.

### Hosting options and the 'cloud'

Increasingly, finance system providers are offering their software on a 'Software as a Service' basis – often referred to as a 'SaaS' or 'cloud' version. In this model, the service is generally paid for on a 'per user' basis (typically for a set period of time such as a month), which reduces the significant up-front capital cost of a traditional system. However, whilst spreading the cost may be appealing, it is important to consider the longer-term total cost of ownership of such a solution; over a typical five-year life of a finance system this model generally works out more expensive.

If your organisational IT strategy has already made a commitment to move other systems to the cloud, that will give added weight to the choice of a cloud solution. Likewise, if your IT strategy is not in favour of cloud solutions, or if broadband connections are an issue, then

you're more likely to look at in-house server-based systems.

As cloud solutions gain foothold, the traditional packages are beginning to offer both privately hosted and 'Software as a Service' options, so the line between the two types of system is blurring.

### Implementation considerations

Whichever vendor you choose, they will already have implemented their system with other organisations and should understand your needs. Talk to other charities that have been through similar situations, and find out if there is a support group you can talk to before you make your final decision. In the charity sector, people are very willing to share information and experience, so you can benefit from their advice and ideas.

The choice of vendor will depend on a number of factors: whether you want to buy direct or through a third party, if you feel happier working with a large or small company, a single product company or one with a wide range of systems. Just because a company has a wide range of complementary products doesn't necessarily mean these systems will integrate seamlessly, nor that because their finance system will be a good fit, their payroll system will also meet your requirements. You may decide to look for a product with excellent integration functionality so you can

connect it up with a best-of-breed payroll system from another vendor.

Make a list of vendors you think you could work with, review and prioritise your key requirements and discuss how their system would meet those requirements. At this point prototyping could be very useful. Explain those key processes to the vendor(s) and give them some sample data so they can show you exactly how it would work.

As well as demonstrating how the system works, this should also give you a good idea of how the vendor approaches implementation, what they are like to work with, and whether there is a good fit with your culture. You need to be able to build a long-term relationship with your provider that doesn't finish when you go live.

It goes without saying you should carry out due diligence on whichever company you choose. Ask for the last three years of audited accounts. Find out if they keep copies of the code for their system in escrow, which would enable you to access it if the company went into liquidation.

All through the decision-making process, make sure your team is on board. Never underestimate the time it takes to implement a system to your specifications and requirements. Staff often like what they know and have limited experience of other systems, so they may feel wedded to the system you already use, or one they have previously used. Change is always

disruptive to a greater or lesser extent, and always brings extra risk and complexity, but you can lessen the disruption by planning, and keeping your staff involved in the selection and implementation from start to finish.

### Implementation needs to be right from the start.

Get it wrong, and you could be paying for it for years – in time, money and frustration. It may take a little longer to get it absolutely right in the beginning, but it will never be time wasted.

Implementing a new system often enables changes in working practices but staff can find it difficult to adjust to the changes. Provide reassurance, support and encouragement – as well as possible backfilling for key staff during the

implementation so that staff have sufficient time to take part in workshops, testing and training.

Good preparation will smooth the transition process, but allow several months after go-live for sorting out outstanding issues and loose ends. You shouldn't sign-off on the project until the vendor has delivered all the functionality that was agreed and made sure it is working well.

Introduce a regular process of review to ensure the system is delivering all the advantages you envisaged. Meet with the supplier regularly to demonstrate you take the relationship seriously and to keep up to date with software developments that could be beneficial. Get to know other users of the system and keep in touch with organisations that have a similar set up. Sharing experiences is invaluable as time goes on.

“All through the decision-making process, make sure your team is on board”

## Conclusions

There are so many options to choose from – from software to hardware to cloud-based solutions, and the groundwork before you make the decision is absolutely key.

Think about where your organisation plans to be in three or five years time. What support is the organisation likely to need from you, and the new

finance system, and how you might provide it? Make a list of your key requirements and discuss them with vendors to make sure you get the best fit for your organisation – both in terms of the system itself as well as the company and people you will be working with to implement and use it successfully.

*This article originally appeared in Finance Focus magazine, August 2015.*

**David Membrey**  
Senior Consultant, Adapta Consulting



CFG's **IT, Data Insight and Cyber Security Conference** is running in March 2017 – visit [www.cfg.org.uk/events](http://www.cfg.org.uk/events) for details.

“Good preparation will smooth the transition process, but allow several months after go-live for sorting out outstanding issues and loose ends”

## CHOOSING AN AUDITOR

*An auditor can be a key financial partner, but what you get out depends on what you put in, says Rohan Hewavisenti.*

Having the right auditor is critical for your financial strategy. Your external auditor needs to provide constructive challenge and assurance on your financial and management controls. This, in turn, will provide a strong foundation for your organisation's financial management, reporting and analysis. Auditors should also provide an overview of what's happening in the sector, changes in regulations, benchmarking with similar organisations, and insight gained from dealing with a range of clients.

But if you have a strong working relationship with your existing auditor, why bother changing? The answer is that things may have become too comfortable. The finance team and auditors may not be challenging each other enough.

However, there may also be reasons not to change. A disagreement over a particular accounting treatment, for example, is not a good reason. You should not look to shop around in order to get a favourable accounting treatment – any new auditor should have been forewarned by the outgoing auditor.

There may be concerns over issues such as fee levels, conflicts over accounting policies, timeliness (although there is nearly always

fault on both sides), high staff turnover or lack of team continuity, and not enough (or too much) advice on non-audit matters. These should be discussed openly during the planning stage and post-audit evaluation stage, rather than trying to achieve a resolution by going out to tender and appointing a new auditor.

### Tender process

The British Red Cross went through a tender process after more than 10 years with the same auditor. In that time they had brought their year-end timetable for signing off the accounts down from over seven months to under three, and won two annual report awards. They had sharpened the timetable by shifting more work to the interim audit, and by ensuring changes were implemented and disagreements resolved before the final audit. They also made sure writing of the narrative report began before the year-end, as most of the content could be written well in advance.

During this time, the finance and audit teams got to know and trust each other well. Yet despite these successes, 10 years was probably too long. You may well have procurement guidelines that state otherwise, but I suspect three years is too short for professional services. It should probably be reviewed after five years, and potentially extended for a further two or three years, at which point there should definitely be an open market tender.

The tender process can take three to six months. The process should be kicked off shortly after the year-end audit has been completed. This will allow time to send out the invitations to tender, receive the firms' tenders covering their experience and approach, shortlist and interview candidates, appoint the candidates, and enable handover prior to the start of the next audit.

### Selection criteria

My preference has been to appoint firms with partners specialising in charities. Audit partners that deal with just one or two charity clients will not have the necessary in-depth expertise or breadth of knowledge to support most charities.

As well as getting references from existing clients, it is worth scanning a few of their annual reports.

Shortlisted candidates should ideally have clients of a similar size, and some working in the same sector. As well as the technical expertise, there also needs to be a fit with the culture of your organisation.

### Ongoing monitoring

We measured the effectiveness of auditors against several criteria:

- Timeliness in meeting deadlines;
- Quality of reports;
- Constructive challenge;
- Usefulness and practicality of recommendations;



- Quality of assurance received by the board and audit committee;
- Level of thoroughness in their work;
- Quality of training provided;
- Reasonableness of fees.
- Some organisations may want an audit that is as cheap as possible to meet the minimum statutory requirements. At the British Red Cross, we took the view that we needed a more proactive and strategic approach.

### Internal audit

One frustration with the external audit landscape is that statutory auditors are not allowed to place reliance on the work of internal audit without carrying out due diligence on the internal audit function. With most charities, that due diligence work is not cost effective. However,

internal and external audit should work together closely; for example, internal audit should follow up on external audit findings to ensure recommendations are implemented quickly.

In my days as an auditor, I performed an audit in Ghana and visited two areas which had been agreed with the client. At the end of the audit, the client told me that there had been suspicions of fraud in an entirely different area, and asked if I had discovered anything. Unfortunately, auditors don't have telepathic powers. They need to be given full and open access to information – including the internal problems and issues you are facing. The lesson learned here is that auditors can only perform as well as you allow them to perform.

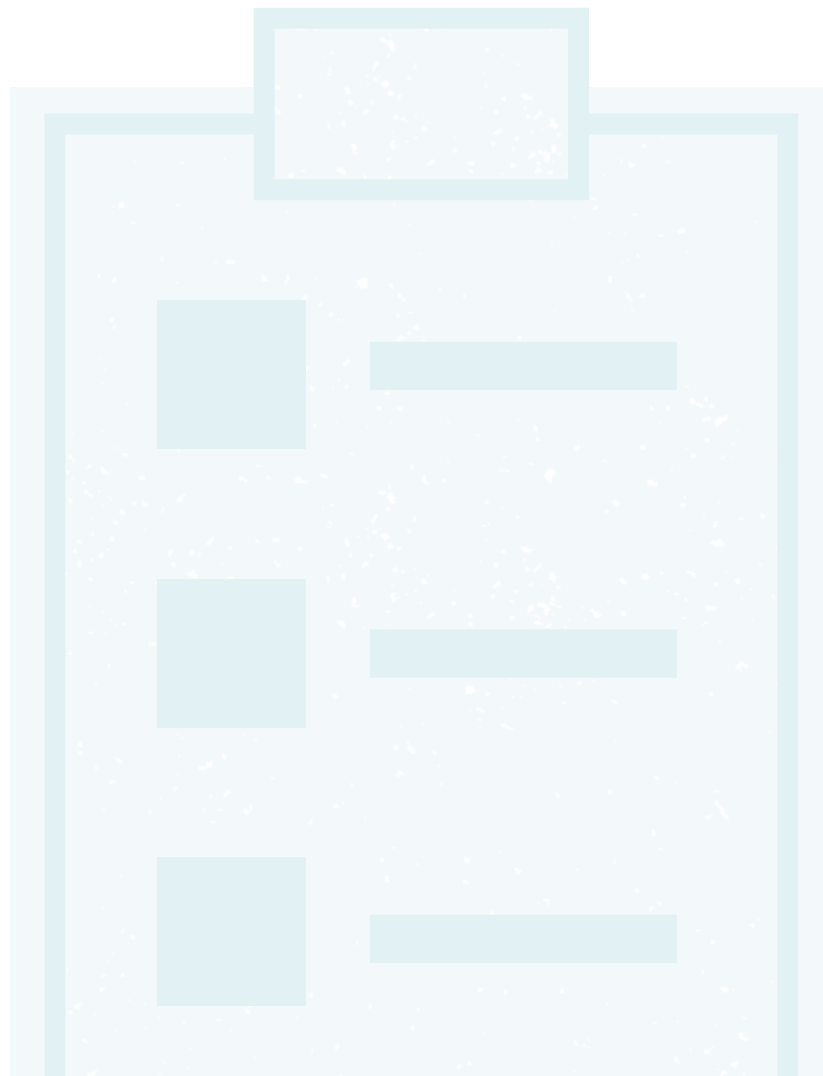
*This article originally appeared in Finance Focus magazine, March 2015.*

#### Rohan Hewavisenti

Group Finance Director at RNIB. Rohan was Director of Finance and Business Development at the British Red Cross at the time of writing.



“As well as the technical expertise, there also needs to be a fit with the culture of your organisation”



## TIPS ON THE AUDIT TENDER PROCESS

### Tom Davies extols the benefits of face-to-face meetings with potential auditors and the importance of asking the right questions.

Without doubt, the most fruitful and (dare I say it) enjoyable audit tenders I have been involved in are those where both parties have been able to invest time in the tender and have, as a result, had the chance to learn more about each other and how they work.

For example, while most charities will now give prospective auditors the chance to have at least one meeting with representatives of the charity, there are still occasions when no such opportunity is given and organisations simply request a proposal to be submitted without a face-to-face meeting.

I have to be honest and say that this can be fairly disheartening, and I would urge you to provide the opportunity to hold these meetings – including the option of meeting with at least one trustee (for example, the chair of the audit committee). It is always interesting to have the trustee's perspective and to hear what they are looking for from their auditor. Not surprisingly, such meetings regularly highlight different priorities, and it's important for us as auditors to understand these.

These meetings also provide the opportunity for you to learn more

about the proposed audit team, and especially the dynamic between the responsible individual (the partner or director) and the manager. From these meetings you will develop a feeling about what it would be like to work with them, their knowledge of charity sector issues (rather than just their firm's knowledge), and whether there is a good “fit” between them and your organisation.

### Genuine understanding

In return for this investment of your time, you should rightly expect the firms tendering to be able to demonstrate a real understanding of your organisation and how they will tailor their audit approach accordingly, adding value to your organisation.

An excellent way of doing this is to ask them to prepare a draft audit plan as part of their proposal. This not only enables you to assess

whether they really understand your organisation, but also gives you a taste of the quality and nature of the reports they will be presenting to you going forward. I have found that, where we have been asked to prepare an audit plan, it has resulted in some very interesting and engaging dialogue with the tender panel.

Importantly, having both parties putting in effort at this stage will help with any transition process, as the newly appointed auditor will have already performed an element of their initial planning activities, thus enabling them to hit the ground running upon appointment.

### Who is who?

Increasingly, audit firms will now include two directors or partners alongside the overall manager in their proposed audit teams. While one will be the audit partner/ director,

“It is important for you to have absolute clarity on what is included in the price and what isn't”

“It is always interesting to have a trustee’s perspective and to hear what they are looking for from their auditor”

the other will typically be introduced as a “relationship partner”.

Under auditing standards, there can only be one individual responsible for an audit, and it is they who are required to have performed all of the necessary reviews of the audit file. Accordingly, it is important that you understand who will be signing your auditor’s opinion. Where an audit firm is proposing a relationship partner, be sure to enquire about what they expect to be doing and how often you will see them.

This said, never underestimate the importance of the manager. She or he will act as your first point of contact during the audit and will be responsible for its smooth delivery. During the tender meetings and presentation, be sure to direct questions specifically to the manager so that they have a chance to respond and so that you can learn more about the individual. As a manager, I will never forget being asked by an audit partner on a selection panel: “If I was to review your audit files, what would be my main criticism?” – a tough question but one where the answer can be quite revealing!

### Check what’s included

As auditors, we are all guilty of highlighting in our audit proposals a range of different services that our firms can provide. It is important for you to have absolute clarity on what is included in the price and what isn’t.

Finally, I would stress that in choosing your auditors you should ultimately select the team and individuals you can see yourself and your organisation working with – the team with the personalities that will have the best fit with your organisation and whose experiences of, and interest in, the sector will ensure that their engagement with you goes beyond simply giving an audit opinion.

*This article originally appeared in Finance Focus magazine, March 2015.*

**Tom Davies**

*Director – Not for Profit,  
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# 04

## TAXATION AND VAT



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# CHARITIES AND TAX: AN OVERVIEW

Contrary to popular misconception, charities are not automatically exempt from taxation. Charities are in fact affected by income/corporation tax, VAT, employee taxes, and capital gains tax. There are of course fiscal benefits associated with charitable status and charities should ensure that they are aware of the opportunities and pitfalls.

An article of this length can merely skim the surface and if CFG members have any particular queries they can use the CFG members helpline by emailing [nonprofits@crowecw.co.uk](mailto:nonprofits@crowecw.co.uk).

There are two main types of tax to which a charity can be exposed, and where there are special rules for charities:

- **Direct tax:** Income or corporation tax is payable on the taxable profits of a trading activity. If the charity is a trust it will be assessed under the income tax regime. A trust is a charity set up by a will or a trust deed or a Scheme of the Charity Commission. All other charities such as charitable companies, Royal Charter bodies and unincorporated associations are liable to pay corporation tax. The charity rules and tax exemptions apply in the same way to both income and corporation tax, which are referred to as direct tax.
- **Indirect tax or VAT:** The VAT burden arises in two ways. First, VAT is charged on much of the expenditure that a charity incurs

and often cannot be recovered. Second, a charity may carry out business activities and make VATable supplies which requires having to charge VAT and pay it over to the tax authorities.

## Tax effective giving

There are significant benefits to charities and donors if donations are made under deed of covenant or gift aid. In essence, the charity is available to recover the basic rate tax and the donor can recover the difference if tax has been paid at the higher rate. Payroll giving schemes also provide similar reliefs. In all cases, there are special rules that must be observed. Some of these matters are discussed further in this section.

## Trading

Many charities are looking for innovative means of income generation. On the voluntary fundraising side charities are trying to increase their slice of the fundraising cake as well as increase the size of the cake itself. However, many charities have also recognised that in addition to tapping the altruistic side of society there is potentially a large source of income that can be motivated through a mix of altruism and some personal advantage.

Charities are increasingly looking for the opportunities to 'sweat their assets'. Hence charities get involved in charity shops, commercial sponsorship, affinity card schemes and other income generation activities. Many charities are providing products and services for

a fee on a regular basis and these arrangements often develop into trading, with consequential tax implications. There are a number of matters to consider such as royalties, and the letting of properties, venue hire, etc. All these matters and more are covered in some detail in *The Tax Implications of Charity Trading*, a book published by CFG and available on the CFG website. An updated version of this is forthcoming.

## Capital Gains Tax (CGT)

Section 256 of the Taxation of Capital Gains Act 1992 (TCGA 92) provides exemption from capital gains so long as the gains are applied for charitable purposes. It is the gains that have to be applied for charitable purposes and not the proceeds from the disposal.

Exemption from CGT is given to donors on any outright gifts to charity (S257 TCGA 92). The disposal by the donor and the acquisition by the charity is treated so as to produce a nil gain or loss.

## Inheritance Tax

Section 23 of the Inheritance Tax Act (IHTA 1994) exempts transfers of value (see S3 IHTA 1994) to the extent that the values transferred are attributable to property which is given to charities. There are, however, circumstances in which this exemption does not apply. For example, where there are conditions which have not been satisfied within 12 months of the transfer.

## VAT

In theory VAT is simple – recover VAT on inputs (business purchases) and charge VAT on outputs (supplies). However, VAT is particularly complex in its application to charities since it is likely to involve standard rated, zero rated and exempt supplies in any organisation. A commercial business may have one business line, e.g. publishing; a charity may have many types of supply and activity; this is the basis for complexity. In addition, there is the important distinction between non business and business activities. These terms have no special meaning in the charity context and, although have not been explained in detail, some explanation is merited where there are charity specific issues.

The VAT issues relating to fundraising and trading are covered in the publication *The Tax Implications of Charity Trading*.

## Employment Taxes

In the main, the rules governing the taxation of employees do not change if the employer is a charity. Hence this text does not attempt to cover the details of employment tax law but concentrates instead on areas that often cause confusion for charities.

## Employed or self employed

Tax law imposes a charge to tax (under Schedule E) 'in respect of any office or employment on emoluments therefrom'. Most charities have no difficulty recognising their core of regular employees and making the appropriate tax and national insurance deductions from their salaries.

However, charity work invariably attracts various other personnel whose relationship to the charity is less clearly defined – volunteer helpers, part-timers, holiday reliefs, freelancers and so on.

This is a difficult area for tax and care is needed. Self-employed workers are responsible for their own tax and NIC's, but it does not follow that any worker who opts to pay his or her own tax and NIC's is automatically self-employed. It is a question of fact, not choice.

If the authorities regard persons as employees and the charity has paid them without deduction, it may be held liable for their tax and NICs. It is important to recognise that each case should be considered on its own merit and generally a checklist type approach should only be used with care. In cases of doubt clearances should be obtained from HMRC.

## Volunteers

If volunteers derive any 'profit' from their volunteering work, e.g. by way of 'pocket money' or 'honoraria' or through the reimbursement of expenses which exceed the actual costs incurred, they immediately become 'paid volunteers'. In other words they have to be treated as employees for tax purposes.

While the treatment of honoraria, etc. may be clear, expenses are less straightforward.

## Rates

Mandatory relief for non-domestic or unified business rates is provided to charities and certain other organisations at 80% where the ratepayer is:

*'a charity or trustees for the charity and the hereditament is wholly or mainly used for charitable purposes (whether of that charity or of that charity and other charities)'.*

S47 LGFA 88 conveys power on local authorities to allow discretionary relief that would be additional to the mandatory relief. This is given when the property is used wholly or mainly for charitable purposes by a charity or other non-profit body whose main objects are charitable or benevolent or concerned with education, social welfare, science, literature or the arts.

## Conclusion

Ignorance is not bliss when it comes to tax matters; rather, it is a folly to be blind. The increased vigilance and penalty regime require that charities take care to consider the tax implications when planning their activities.

## Pesh Framjee

*Head of Not for Profit, Crowe Clark Whitehill. Pesh is also a special advisor to CFG.*



“ Ignorance is not bliss when it comes to tax matters; rather, it is a folly to be blind ”

Save the date: CFG's **VAT and Trading Conference** is taking place on 15 September 2016. Visit [www.cfg.org.uk/events](http://www.cfg.org.uk/events) for information.



## KEY ISSUES AND UPDATES ON VAT

### *Socrates Socratous sets out some of the key VAT issues that arose for the charity sector in 2015, and highlights what he thinks will be on the horizon in 2016.*

Unlike corporation tax, VAT is a tax on supply – not profit. Therefore all charities have to consider the impact of VAT on their budgets. It is a consumer tax, and therefore in a chain of transactions, the VAT cost is ordinarily borne by the consumer at the end of the chain.

VAT on costs can be reclaimed by suppliers in the chain if the costs have been incurred in the course of making taxable business supplies at the standard, reduced or zero rate. As many charities carry on non-business activities and make VAT exempt supplies, they are often unable to reclaim all of the VAT they incur. It is then necessary to undertake apportionment calculations to determine the extent of VAT recovery. Methods of apportionment vary and this is an area which charities should keep under regular review to keep their irrecoverable VAT to a minimum.

#### *What happened in 2015?*

The year began with the introduction of the Mini One Stop Shop ('MOSS'). With effect from 1 January 2015, any organisation supplying digital services to EU consumers had to register for VAT in the customer's

country unless it registered under MOSS. This had unforeseen consequences as there was no MOSS threshold and organisations that were not registered for VAT suddenly had to grapple with the requirements of MOSS.

The beginning of the year also saw HMRC continue their surprising approach on the VAT treatment of direct mail services. Whereas most organisations had been treating the print and distribution of mail packs as a single zero rated supply of delivered printed matter, HMRC announced that they saw this as a standard rated supply of mail marketing services. Negotiations began between HMRC and the charity sector to try to clarify the position, culminating in HMRC Brief 10/2015, which should be read by any charity receiving such services.

This year also saw HMRC beginning to review the treatment of patron/supporter schemes following the 2014 FTT case of Serpentine Gallery. Many charities apparently continue

to treat monies received under such arrangements as pure donations even where benefits are supplied to supporters in return for their money. The Serpentine case set out very clearly what needs to be considered.

HMRC appealed the Upper Tribunal ('UT') decision of the British Film Institute (BFI) to the Court of appeal. The UT found that the exemption for admission to cultural events by eligible bodies should include admission to cinemas. The matter has now been referred to the European Court ('CJEU'). If this is confirmed, charities could see a wider application of the exemption.

A VAT refund scheme for palliative care and medical courier charities was announced in the Budget, and these schemes were formally introduced from 1 April 2015.

Despite recognition that employers should be able to reclaim VAT incurred on pension fund management services, HMRC are still considering their position and

“ All charities have to consider the impact of VAT on their budgets ”

“ The question of what constitutes an economic activity continued to baffle taxpayers, advisers and HMRC ”

have extended the transitional period to 31 December 2016, as set out in HMRC Brief 17/2015. This allows pension funds and employers to continue to apply a 70/30 asset management/administration costs split for VAT recovery.

In the CJEU, there were two important decisions for the sector. In *Sveda UAB*, the court determined that free admission to a nature trail did not automatically result in a restriction of input tax, despite the fact that 90% of the costs were funded by grant. *Sveda's* intention to generate taxable supplies from its retail activity meant that VAT was deductible.

In *Larentia + Minerva GmbH & Co. KG*, attempts by the tax authorities to restrict the recovery of VAT by holding companies on the basis that a shareholding activity and the receipt of dividends was a non-business activity failed, and the restriction of VAT grouping in the UK to corporate bodies has also been brought into question. However, most importantly both decisions made it clear that HMRC's argument that VAT can be reclaimed only when costs are incorporated into the price of taxable sales was wrong, and not supported by VAT legislation.

In similar vein, HMRC lost their appeal in the case of *University of Cambridge* at UT where they argued that VAT incurred on investment management fees should be irrecoverable because it related to a non-business investment activity. *Cambridge* successfully argued that

the funds generated from its investment activity were used to support all of its various activities and therefore the VAT was partly recoverable. The UT again dismissed HMRC's 'cost component of the sale' policy.

Meanwhile, the question of what constitutes an economic activity continued to baffle taxpayers, advisers and HMRC.

The FTT found that *Capernwray*, a not for profit organisation providing term-time bible courses and residential conferences, was making business supplies and thus unable to benefit from the zero rate relief for new buildings used solely for a relevant charitable purpose ('RCP'). This was despite the fact that *Capernwray* relied on volunteers and donations to supply its services, and set its fees at a level only to cover costs. *Capernwray* is in direct conflict with the decisions of the FTT and UT in the case of *Longridge* on the Thames, where, looking at the 'observable terms and features' of the activities carried out by the charity, the UT decided that *Longridge* was not making supplies in the course or furtherance of business. HMRC has appealed this decision to the CoA, whilst *Capernwray* is due to be heard in the UT. A joint application by both HMRC and *Capernwray* for permission to seek a preliminary ruling from the CJEU was turned down by the UT on grounds that there is sufficient case law to allow it to reach a decision.

The *Adecco* case concerning whether VAT is due on salaries paid to non-employed temp workers was heard in the FTT in May, and we await the decision with much anticipation. Many observers believe HMRC will lose this case and open the floodgates for retrospective claims on the basis that VAT is only due on the commission charge and not the salaries of the temps.

Another interesting case, this time on partial exemption and the cost component argument, was *Chester Zoo*, where the FTT found that HMRC was wrong to rule that animal-related costs were not linked to the taxable catering and retail income of the zoo. HMRC decided that the zoo had over-claimed input tax and should apply the standard method override so that the retail and catering income was excluded from the VAT recovery calculation. The FTT was satisfied that in considering all of the Zoo's activities and overall business model, 'economically the animal-related costs are a cost component of the catering and retail supplies.'

#### *What to look for and expect in 2016*

There are rumours that a registration threshold will be introduced for MOSS – however it is unlikely that this will be at the same level as the VAT threshold.

Following the end of the transitional period, HMRC are likely to start to review supplies made by direct mail agencies, and it would not be

surprising to see a case appealed to the FTT.

Hopefully HMRC will reach some conclusions on the recovery of VAT on investment costs for pension funds, and steps will be taken to extend the VAT grouping provisions beyond corporate bodies.

In the courts we should look out for the decisions in Longridge and Capernwray as these should go some way to clarifying what constitutes an economic activity. It is hoped that the CoA will uphold the UT decision in the Cambridge case, forcing HMRC to accept that VAT incurred on investment management fees is partly recoverable. The case of BFI will be eagerly awaited by the cultural sector and if BFI succeeds, there are likely to be wide-ranging implications, not just for organisations

providing admission to cinemas, but cultural services generally.

If Adecco succeeds in the FTT one hopes that HMRC will accept they are wrong and revise their policy on the supply of temps. However experience shows that when HMRC lose, more litigation is likely. It is interesting that HMRC did not appeal the Chester Zoo decision and I expect that at some point someone will submit a retrospective claim based on that decision, but is likely to have to litigate to succeed.

Clearly we are in for another busy year in the world of VAT, and it will be important for the sector to stay alert to any changes announced by HMRC – and indeed any revised interpretations of existing VAT legislation.

**Socrates Socratous**

Director of SOC VAT Consultants



**“We are in for a busy year in the world of VAT, and it will be important for the sector to stay alert to any changes”**

## FORMULA FOR SUCCESS: CALCULATING YOUR VAT PARTIAL EXEMPTION

***Calculating your VAT partial exemption and annual adjustment is no small feat, but the right formula can help, says Andrew Norman.***

So what is partial exemption, why do you have to do an annual adjustment, and why does it strike fear into the heart of many an adviser?

Partial exemption is the name given when a VAT-registered entity incurs VAT on purchases (input VAT) that will be used, in part or in full, to make VAT-exempt supplies.

The partial exemption calculation is the exercise that the business needs to carry out in order to calculate how much input VAT it can recover.

### ***How to do the maths***

The first step will normally be to attribute any input VAT to one of three categories: wholly and only taxable use; wholly and only exempt use (sometimes referred to as “direct attribution”); and input VAT that is used to make both taxable and exempt supplies (normally referred to as overhead or residual input tax or simply, the “the pot”). The partial exemption calculation is used to determine how much of the input VAT in the pot can be allocated to taxable use and how much to exempt use.

The calculation for the standard method, the one that must be used

unless you have a written and signed agreement with HMRC to use a different method, is based on income. The amount of the “pot” that can be recovered is the value of all taxable income (zero, reduced and standard rated) divided by total taxable and exempt income expressed as a percentage, which is then rounded up to the nearest whole number.

The VAT that can be reclaimed is the VAT attributed wholly and only to taxable use (in the first step) and the percentage of the pot as calculated above. If the amount of VAT relating to exempt use is below certain “de minimis” limits, it too can be recovered.

The de minimis limits are a two-step test. The first is that the amount of VAT allocated to exempt use (both by direct attribution and the amount of the pot) must be less than £625

per month (£1,875 per quarter) or £7,500 per year. The second test is the amount of VAT allocated to exempt use cannot be more than the amount allocated to taxable use.

### ***Annual adjustments***

This calculation should be carried out in each VAT return or period, and is only a provisional reclaim of the VAT. Thus, an annual adjustment is needed at the end of the tax year. The idea of the annual adjustment is to smooth out any fluctuations in income or expenses that could give a slightly distortive result. The annual adjustment just combines all the figures for input VAT and income, and the same process and calculation is applied to the figures for the VAT year (normally four quarters). The amount of VAT recoverable as calculated under the annual adjustment is then compared

**“The partial exemption calculation is used to determine how much of the input VAT in the pot can be allocated to taxable use and how much to exempt use”**

to the actual amounts recovered – and the difference is the annual adjustment figure.

The annual adjustment figure can be included in either the year-end return (normally March, April or May) or in the next period (June, July or August). Although you have the choice as to which period you use, HMRC expect consistency in treatment from year to year.

For a number of charities, the standard method is not always appropriate and a special method can be agreed in writing with HMRC. The method can be based on any way of apportioning the input VAT, and it can have different sectors with different recovery methods, but it must reflect the “usage” of the input VAT. Recovery rates can be set for the year based on the previous year’s figures, and different VAT years can be agreed as part of the method.

Partial exemption only deals with the apportionment of business input tax. A charity would normally have to carry out a business/non-business apportionment before the partial exemption method. HMRC does allow charities to use a combined business/non-business and partial exemption method which can be advantageous as a simplification – however, there is no de minimis test for combined methods.

### **Fear not**

Why does partial exemption strike fear in to the heart of many an adviser? Probably because of the difficulty in correctly allocating the input VAT, and the fact that some calculations can be complex. As for me, I can’t wait for the capital goods scheme calculation!

*This article originally appeared in Finance Focus magazine, May 2015, and was reviewed and updated by the author in January 2016.*

**Andrew Norman**  
VAT Manager at Wilkins Kennedy LLP



**“For a number of charities, the standard method is not always appropriate and a special method can be agreed in writing with HMRC”**

## CHANGES TO THE GIFT AID DECLARATION MODEL

### **Nick Simkins highlights some recent developments for Gift Aid.**

Gift Aid, the tax relief which celebrated its 25 year anniversary on 1 October 2015, has generated over £60 billion since its introduction, according to research by the Charities Aid Foundation (CAF). The Gift Aid scheme has undergone a number of reforms during its life, resulting in significant growth rates of Gift Aid receipts for charities. The scheme is continuously evolving.

#### **Gift Aid intermediaries**

A Gift Aid Declaration (GAD) is required to claim Gift Aid on a donation. At the time of writing, each GAD needs to name the individual donor as well as the recipient charity, so the donor needs to decide who will benefit from their gift immediately. The donor cannot, for example, save regularly then subsequently decide who should benefit, unless by using another charity, such as CAF.

In the future, authorised intermediaries will be able to collect GADs from donors without necessarily specifying the recipient charity. The changes will also allow GADs to be made by intermediaries representing individuals, therefore allowing charities to use GADs to claim Gift Aid.

Empowering intermediaries will facilitate donors claiming Gift Aid on donations to multiple charities,

**“Gift Aid has generated over £60 billion since its introduction”**

particularly via digital channels. This should lead to a greater proportion of eligible donations and more relief going to charities. It is hoped it will also encourage the development of new platforms that allow people to donate in new ways.

This reform has already been written into the primary legislation. Detailed operating models for intermediaries are currently being consulted on.

#### **Gift Aid Small Donations Scheme (GASDS)**

The GASDS allows eligible charities and Community Amateur Sports Clubs (CASCs) to claim ‘top-up’ payments on cash donations of £20 or less. Cash donations can be in any currency but must be in bank notes or coins. Charities do not need to know the identity of donors and it removes the requirement to complete and collect a GAD.

From 6 April 2016, the limit for GASDS increases to £8,000 (previously £5,000) a year, thus allowing a charity to claim £2,000 per year.

#### **Gift Aid Declarations and partnerships**

When a partnership donates under Gift Aid, each individual partner must

make their own GAD. The GAD specifies the amount of each partner’s share of the whole donation. Previously, one partner was able to make a declaration on behalf of all the partners, providing the partnership agreement granted such powers.

#### **New Gift Aid Declaration model**

The coalition government announced in Budget 2014 that it would set out to increase the take up of Gift Aid. This followed a National Audit Office (NAO) estimate that there are around £2.3billion worth of donations where Gift Aid is not used.

As part of their approach, research was commissioned by HMRC in Gift Aid: Understanding Donor Behaviour. The research suggested that understanding of Gift Aid amongst donors is low. The link between the tax they have paid and Gift Aid claimed by the charity is not always understood.

One step the government has taken to address these findings is to improve the model GAD form. Designed by HMRC, the model form can be adapted to suit a particular charity and is already being used by a large number of charities.

It has long been argued that the existing GAD model is unnecessarily dense and complex. The presentation



of the text in an unbroken paragraph is said to be inaccessible and encourages skim-reading.

The previous model mentioned capital gains tax, VAT, council tax and CASCs. In many cases this was unnecessary and potentially misleading.

These factors have also been claimed to discourage Gift Aid on donations made online or through text giving.

HMRC wish to reduce the number of donations eligible for Gift Aid but on which the relief is not claimed, as well as the number of ineligible claims. The new model wording for single and enduring declarations will replace the old model from 6 April 2016, and is now available on the HMRC website. This should give charities the chance to deplete their existing stock of printed materials with the previous template declaration.

### Positives

The changes seek to address the need for clear, succinct information broken down into easily digestible sections.

HMRC's research concluded that donors do not deliberate about Gift Aid every time they donate. Instead,

donors' choices were often automatic and influenced by previous decisions they had made on whether to claim or not. The new GAD model uses tick boxes which it is hoped will encourage donors to reconsider their position rather than follow their habitual behaviours. The model now uses simplified language and has been significantly shortened. Unnecessary references to council tax and VAT have been removed.

HMRC has also improved the layout to encourage donors to pay more attention to the information being presented.

### Challenges

The model includes a clear statement informing the donor that it is their responsibility to repay any tax shortfall. It is scheduled to be included in GADs from next April.

It is to be hoped that care will be taken in drafting the language used in the tax shortfall statement. Too strong a commitment to recover incorrectly claimed Gift Aid from the donor may be seen as pressuring and intimidating. It will be challenging to devise language that does not discourage those correctly claiming Gift Aid who knew they were eligible.

The other challenge comes with the timing of the inclusion of this tax shortfall statement. Those against the inclusion of this statement will call for a delay to its introduction. At least until the new statement has been properly researched and tested to understand its impact. The sector will have welcomed HMRC's decision not to pursue the charity itself for over claimed Gift Aid.

*This article originally appeared in Finance Focus magazine in November 2015.*

#### Nick Simkins

Head of Charities and Education at Moore Stephens LLP



“The National Audit Office estimates that there are around £2.3 billion worth of donations where Gift Aid is not used”

## TOP TIPS FOR GETTING IT RIGHT WITH GIFT AID

“It is important to understand how your system works to help minimise mistakes”

*What should charities be focusing on when administering their Gift Aid operations? Helena Wilkinson has nine top tips for charities.*

#### 1. Clearly document your system

Organisations may run Gift Aid operations and keep their Gift Aid declaration records in one location or in many locations – like if there are charity shops involved. It is important to understand how your system works to help minimise mistakes. Who is responsible for keeping Gift Aid declarations, how are they held and how are they filed? It is best that everyone operates the same system. How is the person who maintains the record for Gift Aid claims informed of new one off and enduring declarations? It is important to document systems so if there is a change in personnel in the organisation there is no loss of knowledge on your Gift Aid administration system.

#### 2. Brief staff and volunteers involved in Gift Aid

Ensure that staff and volunteers have adequate training and understand the basics of Gift Aid. It's vital they understand the rules of what can be Gift Aided, their script (especially when acting as agent in selling goods in charity shops), and the evidence that the charity needs to keep, where and how. If you operate an oral declaration scheme, ensure

that the staff and volunteers understand their obligations and that their script is very clear. Are you keeping audio recordings or documentation in writing?

#### 3. Ensure that the person responsible for completing Gift Aid claims is sufficiently knowledgeable

The person who submits the return needs to have a good working knowledge of Gift Aid, so that they are likely to spot issues or potential errors when preparing the return.

Examples could include spotting company names included on the list. Or, where donors receive benefits in return for their donation, they do not breach the limits – especially where benefits are difficult to value. The person submitting the return must understand how opportunities to claim Gift Aid on income streams such as fundraising days, admissions and auctions works, and ensure they are structured correctly.

#### 4. Audit your processes

HMRC will conduct a Gift Aid audit (probably!) at some point in time, so it is good idea to review Gift Aid returns yourself periodically. In fact, there should be a policy in place that where a Gift Aided donation is over a

certain level, it is always checked before the claim is submitted. Errors on large amounts will carry the worse penalty in extrapolation and it would not take long for the organisation to check as they go.

#### 5. Gift Aid Small Donations Scheme (GASDS)

If your organisation collects cash, then claim your GASDS amount! You just need to be able to demonstrate the make up by denomination of the amounts counted and banked. This should be part of your processes anyhow, so you just need a clear system in place. Remember the £20 limit per donation under GASDS.

#### 6. Retail Gift Aid

Ensure that where you operate retail Gift Aid, your staff and volunteers understand the importance of ensuring that goods are only attributed to the person who brought them in and not 'swapped'. Incorrect attribution to individuals is Gift Aid fraud and could land your organisation in trouble.

#### 7. New Gift Aid declarations

With the Gift Aid declarations changing from April 2016, it's important to get your house in order! If you have any missing declarations,

you may wish to get these in before the new wording arrives.

#### 8. Complex Gift Aid situations and periodic review

Do ensure that where you are operating Gift Aid on more complex areas (i.e. not a straightforward cash donation with just a declaration attached) that you undertake a periodic review to ensure that the claims are still valid. It is easy for the wording to be changed over time and that could cause issues – such as participation fees. This can often

trip charities up, and depending on the complexity, you may need professional advice...

#### 9. Get professional advice!

My final tip is that where the amounts involved are significant or the situation is not clear cut, take professional advice. It's better to be safe than sorry.

*This article originally appeared in Finance Focus magazine in November 2015.*

**Helena Wilkinson**  
Head of Charities and NFP at  
Price Bailey



CFG's popular and practical **Gift Aid Conference** is running again in February 2017 – save the date! Details will be posted at [www.cfg.org.uk/events](http://www.cfg.org.uk/events).

“Ensure that staff and volunteers have adequate training and understand the basics of Gift Aid”

# 05

## BANKING AND INVESTMENT

### IN THIS SECTION

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# KEY TRENDS AND ISSUES FACING CHARITY BANKING

***Hugh Biddell provides an update on what charities need to be aware of in the coming year, and how charities can ensure they are being cost-efficient with their banking services.***

"It's only when the tide goes out you can see who is swimming naked" said investment guru Warren Buffett. And there is no doubt that the tide has been dangerously low in some segments of the charity world. Good governance is vital, and the Charity Commission guidance urges trustees to consider their reserves, banking and governance.

Despite some growth in the economy, there is significant pressure on charities and this comes to light in a number of areas. Attention from the Charity Commission, Ofsted, CQC and other relevant regulators is undoubtedly growing. Fiscal pressures from public sector bodies to make savings demand constant vigilance and, although individual giving has been good, forecasting the effect of any changes that will result from the final fundraising regime and any loss of confidence from individuals is an added uncertainty.

At the same time, charities are faced with increased demand for services and potentially increased costs from changes to the living wage. Many charities are showing great energy and focus and are meeting these

challenges superbly. Best practice is to work closely with your bank or finance partner to ensure they are well informed, in a position to provide support if needed, and avoid any surprises.

***There are three key elements to be aware of***

First, the need to seek new models to grow income and change operating assets to reduce risk has led to more use of reserves and, in some cases, a need to seek finance to transition to new models. Interest rate levels have seen a number of charities considering finance to take the opportunity to buy buildings rather than accept upward rent reviews. Payment in advance is less prevalent, meaning charities potentially need to look at their working capital finance.

Faced with low interest rates, some charities – especially those in the fortunate position of having endowed reserves – are considering the relative risks and returns of holding less cash and putting more into equities and taking out liquidity facilities to provide extra comfort that they can make grant or other payments when they need to.

Second is the need for charities to deliver efficiency and effectiveness. When the need for savings arises, the Finance Director is at the centre of planning. As a result, the finance department usually has to show the way, setting an example by implementing efficiencies. It has to

have a credible mandate and be able to understand and, where appropriate, challenge colleagues and front line delivery staff on their budgets. So, as finance staff look at their own departments we see a focus on simplifying end to end processes.

***Using banking to help ensure cost savings***

Of course charities look hard at bank charges and benchmark their performance, but the way they run their banking is also a fruitful area to ensure savings – especially as wage costs are often greater than those for processing payments.

One example of this is the effort charities are making to reduce the number of bank accounts, strengthening automated reconciliation and avoiding duplication. This could not easily have been achieved a few years ago, but there is less need for decentralised accounting – the ability to use more data effectively is one reason for revisiting this.

One major charity we work with is in the process of reducing their number of accounts by almost two thirds as a first stage. To do that they need to understand the data feeds and what information is required where for what purpose. Often, the original need for a separate account is not there anymore, and time consuming habits have not been re-examined.

Charities need to consider what information flows from those feeds and they need to liaise with fundraising and other areas and communicate well. There is also a growing trend within charities to be able to demonstrate and record an effective procurement process via payment-card. Being able to clearly demonstrate how individuals and departments manage spend on a daily basis is becoming the norm. Allowing individual card holders to review, and allocate costs to specific coding classifications to assist with reconciliation and cash management is an everyday requirement. More and more requests are seen from charities looking to monitor card spend individually, grouped and collectively.

The ability to report spend via merchant category and internal codes gives greater visibility of spend within the charity and can enrich a relationship with suppliers while assisting with internal budgets and cost allocation.

As technology evolves, charities are looking for systems that allow for dynamic messaging and communication between card users on an individual basis, or at an organisation level, to deliver automated email/spend alerts.

Sometimes this sort of activity does not get to the top of an FD's pile but it is important – especially now that automation is easier. Working closely with your bank can help this process and the benefits release larger

**“ The UK Cards Association recorded September 2015 contactless spend at £758m – 199.8% up on the same month in 2014 ”**

savings from reduced risk of fraud, headcount or in time for staff to focus on decision support or value added activity.

At a smaller charity level, efficiency is often about effective electronic banking and good controls, efficient mandate review and close controls to avoid fraud.

***Using innovative technology***

Finally, we have seen a surge in the acceptability of contactless payments throughout the UK in the last year. The increase in the limit to £30 has helped; with the UK Cards Association recording September 2015 contactless spend at £758m – 199.8% up on the same month in 2014.

As confidence has grown with consumers there is a significant opportunity for charities to use new technology for innovation. We have tried, for example, pilots of contactless, cashless collecting tins and can see the potential savings from higher minimum donations, less cash handling cost and fraud/ loss.

Donor behaviours will be key, but I am sure that by working with innovative partners, we will see a significant growth in this as a tool for engagement and fundraising in a big variety of settings. We are certainly working with charities on understanding the elements that will make this a powerful tool for fundraisers rather than a promising innovation.

**Hugh Biddell**  
Head of Charities and Not For Profit,  
NatWest





# FINANCIAL CHALLENGES FOR CHARITIES WORKING OVERSEAS SET TO CONTINUE

**Charities working internationally are increasingly having difficulties accessing financial services: an unfortunate by-product of banks rethinking risk in order to counter terrorism and money laundering. Andrew O'Brien explains how this is likely to play out in 2016.**

Throughout 2015 there were a number of reports of charities losing access to financial services because they were working in 'fragile states' including Syria, Somalia and Sudan.

Charities strive to help those that need it most in a number of different ways at home and abroad. But the humanitarian, development and peace-building work that charities undertake has always occupied a special place in the public mind. Charities which undertake this vital and often dangerous work are some of the most popular and respected institutions in the country. However, in order to carry out their activities charities need to be able to access financial services so that they can transfer resources to those areas that need them most.

## What were the key issues in 2015?

The last year has seen increasing pressures on charities' access to financial services, particularly small and medium sized organisations, from a number of different directions. A briefing that CFG released at the start of 2015, following consultation with our members, found a number of problems facing charities including international transfers being delayed by banks; more information being requested; funds being frozen; delays in opening new accounts; existing accounts closed and donations being blocked.

The most intense pressure came in the wake of terrorist attacks in France, the United States and in the UK over the past 12 months. Western governments are highly aware of the threat of ISIS and other terrorist groups, and are putting pressure on institutions across the world to do everything they can to disrupt their operations. The escalation of the terrorist threat, combined with comments given by some regulatory bodies that charities are a potential vehicle for terrorists, has changed the risk calculation for many financial institutions.

The counter-terrorism architecture has also made the situation more challenging for charities. Although it is difficult to pin point the specific cause for difficulties, a combination of vagueness in guidance and legislation produced in the UK, international regulatory guidance

on NGOs for governments produced by the Financial Action Task Force, and tough extra-territorial sanctions regimes operated by the United States are all factors.

The financial crisis has also left a big legacy with many banks still trying to find a way back to profitability. Charity accounts have never been seen as 'money makers' and many have operated accounts because they want to be seen as good citizens. However, the need for banks to put aside more money in order to meet stricter capital requirements and the threat of sanctions has tipped the balance in some cases.

## Trends unlikely to abate in 2016

Charity Finance Group and other bodies have been engaging with the UK Government, Charity Commission and international partners to see how we can improve the situation for charities. But these trends do not look like abating in 2016. If anything; the difficulties for charities are likely to increase. The positive over the past twelve months has been the recognition by the UK government that the so called 'de-risking' activities by financial institutions are undermining charities' abilities to carry out their activities and help them to achieve their policy objectives.

**“Charities need to be able to access financial services so they can transfer resources to areas that need them most”**

## Opportunities for change in 2016

Now that the problems have been recognised, there are opportunities for change over the coming year.

At a national level, there are ways that the UK government can improve the operating environment for charities. At the end of the last year, after efforts by CFG, Bond, Conciliation Resources and Oxfam, the Home Office produced guidance to better explain the counter-terrorism legislation and how charities can work within them. It also used the guidance to stress that risks should not be calculated on a blanket basis, and charities should not all be cast as 'at risk'. This was a good first step, but there are other changes that can be made – such as better licensing arrangements, and clarity about how charities should operate in areas where terrorists may control territory. Improving these systems will reduce perceived risks within the financial system that is providing services to charities working in fragile environments.

At an international level, we need to work with institutions such as the Financial Action Task Force to improve their guidance about NGOs. Recommendation 8 and the Interpretative Note that accompanies it say that charities are particularly at risk as institutions. This is not fair or accurate, but it breeds concerns in financial institutions and governments around the world that they should not be allowing charities to access

financial services. We also need to build more alliances with sister organisations across the world so that they can push for change and build a stronger global coalition for change.

Charities can also take action themselves to improve access to financial services. Our briefing found that charities that communicated regularly with their banks and made efforts to demonstrate their already existing due diligence and assurance procedures were more likely to keep access to their services. Contrary to the views of some outside of the sector, charities take these issues incredibly seriously. The loss of resources to anyone is a problem, but especially for charities, given that they have a legal duty to ensure that all their resources are used to further their charitable objectives. Charities need to do more to shout about their existing efforts to stop resources falling into the hands of terrorists.

## Conclusion

CFG will continue to look closely at this issue in 2016 and beyond. We know that having access to the right financial services is critical to the work of our members and to the charity sector as a whole. Change is often slow, but it has been moving in the right direction despite the increased terrorist threat. Over the next twelve months, more emphasis needs to be put on engaging with partners in government, regulators and international institutions as well as improving education for charities

and ensuring that they have the tools to protect their organisations. Engagement with banks is also critical. Through means such as CFG's Banking Forum, we hope to facilitate that.

Charities must keep up the pressure over the coming year so that we can keep delivering the services that millions around the world depend upon.

**Andrew O'Brien**  
Head of Policy and Engagement,  
CFG



CFG runs an **Overseas Special Interest Group** for charities with an interest in this area. Visit [www.cfg.org.uk/ossig](http://www.cfg.org.uk/ossig) for details on how to join.

## KEY QUESTIONS FACING CHARITY INVESTMENT

*After a couple of lacklustre years for the returns of most investment markets, it is not surprising that charity trustees may be wary of the future. Guy Davies looks towards 2016 and highlights what charities need to be aware of.*

The performance of most asset classes in 2015 have been increasingly volatile, with extremes in the summer, but for the year to date most returns have been flat with the exception of commercial property.

Investors would be forgiven for thinking, is it worth the effort to endure the increasingly bumpy ride for low total returns? We think the risks are manageable, provided trustees are willing to take a long-term perspective and diversify investments with a suitable mix of different asset classes. While the risks have increased, having a careful eye on the key factors that influence market returns will be critical in an increasingly connected investment world.

### Looking towards 2016

Global central bank divergence is expected to be a dominant theme. We expect the US economy to retain its role as the engine of global growth in 2016. However, growth is likely to remain modest compared

with previous economic cycles, allowing the Federal Reserve to proceed on a very gradual tightening path. The Bank of England is likely to be keen to follow the Fed's lead and initiate its tightening policy, in contrast to Europe and Japan, where ongoing central bank stimulus is expected to support those economies' mild recoveries.

Our confidence in the sustainability of US growth has been tested in 2015, particularly as third quarter data releases disappointed expectations. In our view, though, investors became overly bearish. A strong labour market has been a pivotal underpin to US consumer spending in the second half of 2015, which has also been helped by real income gains through lower energy prices. The manufacturing sector saw protracted weakness on the strength of the US dollar and slower global growth, but services activity – a larger contributor to US GDP – remained robust.

More recently, there have been signs that the contraction in manufacturing activity is beginning to bottom as external headwinds abate. Headline inflation remains low, but core inflation has remained steady on the strength of services. We expect the impact of lower energy prices on headline inflation to be transitory and, more importantly, we are finally seeing evidence that tighter labour market conditions are placing upward pressure on wages. In an environment of steady economic growth, we expect the Federal Reserve to proceed on a very gradual tightening path, stopping at a point that is likely to be significantly lower than seen in previous tightening cycles.

The UK economic and interest rate cycle has closely followed the US, but some would now describe UK policy to be in a quandary. Domestic demand has been firm but similar to many other economies, the manufacturing sector that has taken the pain. Market pricing has pushed

**“ While risks have increased, having a careful eye on the key factors that influence market returns will be critical in an increasingly connected investment world ”**

**“ We are expecting another eventful year for investors ”**

out a first Bank of England interest rate hike to late 2016/early 2017. As the Federal Reserve embarks on its tightening path, however, we believe there is a risk that the Bank of England will be keen to follow its lead. Price pressures in certain parts of the economy, such as property and services, are rising, and headline inflation should begin to rise as lower energy-price effects diminish through the course of 2016.

Meanwhile, the European Central Bank and the Bank of Japan are both expected to remain very accommodative, reinforcing the theme of global central bank divergence. While the balance of probabilities is weighted in favour of more monetary stimulus in 2016, we believe there is no guarantee that either bank will act. In Europe, we have been particularly encouraged by the positive turn in credit trends, providing some evidence that the European Central Bank's stimulus programme is working. Moreover, domestic demand has held up well in 2015, despite headline risks surrounding Greece, specifically, as well as broader financial market volatility.

Japan's macroeconomic picture has been lacklustre, but we are not convinced that the Bank of Japan is keen to extend the qualitative and quantitative easing programme; indeed, how far can banks keep administering the medicine without the desired outcomes? We expect that the government may announce a supplementary budget to support

growth. Next spring's wage negotiations will be important for Japan's near-term inflation outlook, but recent activity data is pointing towards broad-based improvements across the economy. Furthermore, Chinese growth trends should begin to stabilise as monetary easing takes effect, relieving the pressure on Asian economies more generally. Additionally, the People's Bank of China has the room to ease policy further to support China's transition to a more domestic demand orientated economy.

### What are the investment implications in an environment of moderate global growth and a benign Federal Reserve tightening cycle?

We continue to believe it is prudent to maintain a short duration profile in fixed income, holding shorter-dated bonds and constraining our overall exposure to this asset class. We expect US and UK government bond yields to rise moderately across the curve in response to gradual central bank tightening. We believe there will be fewer opportunities across the broader corporate credit universe than in 2015 due to weaker fundamentals, and investors will need to be selective to find pockets of value.

Equity market sentiment remains cautious, following the heightened levels of market volatility seen in the

late summer. With the focus centring on Federal Reserve policy decisions and the theme of global central bank divergence, we expect financial markets to stay volatile in the short term. Nonetheless, the interest rate tightening cycles in both the US and UK are likely to proceed very gradually against a backdrop of modest growth. In this environment, we believe that global equity markets can continue to grind higher.

While the broader asset allocation decision of maintaining an overweight equity exposure remains intact, what is likely to change next year is the orientation of our equity exposure across style, sector and market capitalisation. We have been in a prolonged period of growth stocks outperforming value stocks since 2009 and this dispersion is now at extreme levels, particularly in the US. In an environment of uncertain growth and low inflation, investors have been willing to pay the premium for the predictability of earnings and evidence of profitability. This policy has worked well for charity investors, who have followed a higher income bias in portfolios compared to a boarder total return approach, but we are wary that valuations are looking stretched. As a consequence, we expect to be reducing our US growth bias in favour of increasing exposure to more cyclical markets, namely Europe and Japan, as well as to certain parts of the UK market capitalisation spectrum, namely large, medium and smaller companies, where we see better



upside potential over the medium term.

### Key questions for 2016

More broadly, a key question for next year will be determining when it will be appropriate to rotate from developed markets into emerging markets. Within our own portfolios we have had limited exposure to the emerging markets, but over the longer term we will be looking for opportunities to allocate more to these markets. Ultimately, the decision to rotate will depend on when the growth picture starts to stabilise in emerging markets, which we believe represents a story for the second half of 2016 and into 2017.

In a low growth/low interest rate environment, we continue to believe that equities offer the best potential risk-adjusted returns versus other asset classes over the longer term. We retain our cautious view on the government bond markets and remain selective in corporate credit.

We are expecting another eventful year for investors, characterised by performance dispersion between markets, particularly as global central bank policy diverges. This differentiation should create a fertile environment for those investors who are able to take advantage of tactical opportunities.

**Guy Davies**

Head of Charities, Heartwood Investment Management



## TOTAL RETURN INVESTING FOR CHARITIES

**“Volatility is likely to be a feature of financial markets for the foreseeable future”**

***A total return approach to investing could help to mitigate risk and capture select growth opportunities in today's volatile, low growth environment. Simon Nichols explains.***

The risks and rewards for charities of investing in financial assets have changed over recent years, as monetary authorities have intervened in the financial markets with highly unorthodox policies. By pushing down interest rates and implementing successive rounds of quantitative easing, policymakers have hoped to stimulate growth in the global economy and avoid a painful correction to asset prices and living standards. This, we believe, has had the unintended consequence of distorting the cost of capital, the rate of return above the risk-free rate which is required to persuade an investor to make an investment. In turn, this could have a considerable impact on how charities may seek to meet their investment objectives.

### ***The hunt for yield in a distorted world***

Distortion is seen most acutely in fixed-interest markets, given that central banks in the US, Europe and Japan have reduced interest rates to near-zero levels. In some cases, rates have slipped below zero; for example,

savers with the European Central Bank must now pay for the pleasure of depositing their assets in euros, following the implementation of negative deposit rates earlier this year.

In addition, central bankers are creating money to purchase longer-dated fixed-interest securities, otherwise known as 'quantitative easing'. A result of this is that investors looking for the security of a government guarantee on the repayment of their capital receive scant reward from their investment, with nominal yields of just 2-3% available on 30-year bonds issued by the major developed countries.

As a result, charity investors hoping for more than a low single-digit return on their assets are being forced to take more risk with their capital, for example by moving into higher-yielding (and higher-risk) fixed-income securities, into property, or into equities in the hope of receiving a higher level of income from dividends with the potential for capital growth.

### ***Volatility ahead***

At Newton, we believe that there are a number of structural forces at work in the global economy, such as ageing populations, high debt levels (which bring forward consumption)

and the distorted cost of capital (which has created overcapacity in some industries), which lead us to believe that over the medium term, global economic growth levels are likely to be subdued, but not necessarily linear over time or between geographies.

Changes in political power will ensure that fiscal and monetary policy objectives change over time, and we expect that all policy tools available will be used as each country attempts to grab a share of economic growth. Technological advances will continue to provide growth for some companies and industries, but leave others with redundant products or assets. All these factors lead us to believe that volatility is likely to be a feature of financial markets for the foreseeable future.

### ***Reconsidering returns***

It is important that investors have some expectation of the potential returns which their assets may be able to achieve. The starting point, or the level at which an investment is made, is an important determinant of future returns. If we take the cyclically adjusted price-to-earnings ratio of the S&P 500 index (the total current price of the S&P 500 divided by the inflation-adjusted total earnings of its constituents over the



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**Investors should remember that the value of investments, and the income from them, can go down as well as up.**  
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last decade) as a measure of valuation, we can see that over the last few decades valuations have risen somewhat; at the end of 1981 the average company in the S&P 500 was trading at a price which was around seven times its earnings. Fast forward to the present day, and this figure is now consistently well over 20 times (Source: Newton, 2015). Meanwhile, the aggregate dividend yield of the MSCI USA index has fallen from just under 6% at the end of 1981, (Source: Newton, MSCI) to around 2% today (Source: MSCI, as at 30 June 2015).

It could be argued, therefore, that current asset valuations are less conducive to producing the same level of returns as those assets have generated over the last three decades.

### **A challenging time for income investing**

The current environment in financial markets is certainly challenging for charities attempting to adopt an investment policy for their assets which will provide a reasonable level of return with an acceptable level of risk to their capital. This challenging backdrop only serves to highlight the importance of a much-debated issue for charities; what constitutes a sustainable withdrawal rate from their portfolios.

In a low growth environment, the income received from an investment often forms a large part of the total return. However, in adopting an income-focused strategy, it is important to have transparency about how that income is being generated, the underlying holdings behind it, and how sustainable it is. Adopting a strategy that employs some form of derivative instrument to enhance income may add further complexity to the mix and reduce capital returns.

In the UK equity market in 2014, the top five dividend-paying companies accounted for 45% of the total dividends paid over that year, with the top 15 firms paying out 63%. Just three sectors (telecommunications, oil and gas and financials) generated slightly over 54% of the total dividends paid over the same period.

Having a strategy focused on income alone is therefore susceptible to being concentrated in just a few areas; concentrating the risk to capital should a change occur in one of those sectors, for example the oil price fall last year. It also means that areas of the market that may have better prospects could be under-represented in a portfolio.

The sustainability and growth potential of high-yielding companies is an important factor to consider too. Higher-yielding companies tend to pay out the majority of their earnings as dividends, leaving little to reinvest, unless borrowings increase or indeed the income is paid out in the form of a 'scrip' (through which dividends are paid by issuing more shares, thereby diluting the holdings of those who opt to receive cash dividends).

### **The benefits of a total return approach for charities**

To take advantage of the potentially more volatile and low-growth environment, charities, in particular those with permanent endowments which have recently been afforded more freedom in creating their policies with a change in legislation, could consider a total return approach. An investment policy without the constraints of producing a predetermined level of income allows greater flexibility as to where assets are employed. That is not to

say that such a policy would avoid income-producing stocks where it is thought that the income stream is sustainable, but it would allow the charity the freedom to invest in those select companies which are likely to grow. This does not have to mean taking more risk with capital, as many companies strike a balance between shareholder returns and reinvestment in the growing parts of their businesses.

### **Conclusion**

To conclude, we believe that a total return approach, which may increase a charity's investment universe and frees it from the constraints of a pre-determined income target, could help to mitigate risk and capture select growth opportunities in today's volatile, low growth environment.

**Simon Nichols**

*Portfolio Manager, Newton Growth Fund for Charities*



CFG runs **Foundation Investment and Advanced Investment** training courses throughout the year – visit [www.cfg.org.uk/training](http://www.cfg.org.uk/training) for details.

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# **HAS RESPONSIBLE INVESTMENT GONE MAINSTREAM?**

***There has been heightened focus on charity investment practice for some time now – ACF and Cazenove's report sheds light on current charity investment practice.***

*Intentional Investment: The Principles, Practicalities and Pitfalls*, provides evidence of the changing nature of charitable investments. The report, published by the Association of Charitable Foundations (ACF) and sponsored by Cazenove Charities, simplifies a complex landscape which has been shaped and reshaped by trustee boards negotiating individual approaches driven by their charity's unique objectives.

### **Rapid change in investment behaviours**

The report clearly highlights the pace and scale of change. The number of charities who manage their investments with their mission in mind has substantially increased in the last five years – to 59 per cent of those who responded to our survey, compared to 23 per cent in 2009.

The statistic is striking, suggesting that reflecting a charity's mission, values, or wider social concerns in its investment strategy has moved from being a minority concern to a mainstream practice. The report

**“The number of charities who manage investments with their mission in mind has substantially increased in the last five years”**

identified a number of drivers underpinning this change.

Participants in focus groups suggested that improved regulatory guidance has helped: making it clear that the law does not require charity investors to pursue investment returns at the expense of their charitable mission, their organisation's reputation, or in ways that could alienate donors or beneficiaries.

Participants also cited new generations of trustees joining boards who felt that investment practice should align with the charity's mission, values or wider social goals.

### **What organisations connect mission to investments?**

Respondents who were dependent on public appeals for their income were much more likely to have an investment policy that reflected the charity's values than those who had “independent” incomes derived from investments.

In terms of charitable aims, those charities focused on religion and promotion of faith were most likely to invest with mission and values in mind, with 87 per cent having a responsible investment policy. This was followed by charities whose purpose is peace and conflict resolution, with 80 per cent having a responsible policy.

On the other hand, those least likely to have a policy were those with a purpose focused on science and technology, at 27 per cent.

We identified four main behaviours to connect mission and aims to investments; exclude, select, influence and deliver.

Of those surveyed, 78 per cent with a policy were excluding specific industries or companies from their investment, with tobacco the most common exclusion.

In contrast, 34 per cent were selecting industries that rated well in terms of environmental, social or governance (ESG) factors, 22 per cent were seeking to influence corporate behaviour by using share voter rights, and 17 per cent were

looking to deliver mission related outcomes through social investment. We found that the most popular reasons for adopting a policy were to avoid conflict with the charity's aims (65%) and avoid investments that are detrimental to society (53%).

Of those without a policy, 53 per cent said it was because their mission did not require one, while 39 per cent said it was because it would restrict their options. Only 9 per cent stated that their behaviour was driven primarily by cost considerations.

### **Return on investment vs. reflecting your mission**

What is clear is that when charity trustees do choose to reflect their mission, values or wider social concerns in the management of their investments, they are not necessarily sacrificing returns.

Citing research, the report shows that while 'sin stocks' in such industries as tobacco, alcohol, arms, and pornography have historically delivered premium returns, their overall contribution to portfolios means that the effect of their exclusion in financial terms can be minimal, depending on the number excluded.

We also cite research that shows that investing in companies with positive ESG records can make good financial sense.

Similarly, influencing and engaging with companies to improve their behaviour can be financially rewarding because successful engagement tends to enhance company value and therefore investment returns.

Our work doesn't advocate for a particular approach to investment; what is right for one charity may not be right for another, and only trustees are in the position to make that choice.

#### **Richard Jenkins**

*Head of Policy, Association of Charitable Foundations*



### **Intentional investment**

With that in mind, the report recommends intentional investment, which means that trustees have thought about the management and use of their charity's assets so that their approach supports the delivery of their charitable aims. They are able to explain their approach and, as far as possible, anticipate and review the impact of their decisions in terms of their mission and values, beneficiaries and supporters.

ACF's Intentional Investment report can be downloaded from [www.acf.org.uk](http://www.acf.org.uk).

*This article originally appeared in Finance Focus magazine in July 2015.*

#### **Kate Rogers**

*Head of Policy, Cazenove Charities*



## **WEIGHING UP THE RISKS IN INVESTMENTS**

### **What investment risks and opportunities are there for charities in the current climate? Nicola Barber provides an update.**

Risk can keep us awake at night, so being told we need to embrace fresh risks is probably unwelcome news. However, burying our heads in sand – or pillows – is not an option. We have a responsibility to identify and continually monitor the risks facing the organisations we represent.

#### **Market risk**

A core risk occupying the minds of charity investors has been around equities and capital volatility risk. Six years into a bull market it is not surprising if we have reached the "wall of worry" stage, where investors feel they cannot afford to ignore equities, but fear the future.

For the record, we still think equities have further to go, but we have recently reduced exposure to the US, which is the most expensive of the major regions on valuation grounds and where headline earnings and share price momentum have started to deteriorate. We see opportunities to benefit from quantitative easing in regions like Japan and Europe – though structural problems remain in Europe.

Of more concern to us is what has traditionally been perceived as the much safer fixed interest space, which

has experienced a sustained and unprecedented period of strong real returns. (\*UK government bonds have risen + 6.3% p.a. on average between 1980 and 2010 compared with – 0.5% p.a. for the preceding 80 years).

#### **Interest rate risk**

This is probably one of the greatest risks that portfolio managers face at the moment. We do not expect all-out panic in the bond markets, but rate rises (or their imminence) could build selling momentum and there is a serious risk of negative real returns.

#### **Income risk**

Is your investment strategy aligned with your commitments? Most obviously, does your charity depend on the income or total income and capital return of your investments to fund its activities? The Charity Commission now allows more freedom for you to take a total return approach – but do you have flexibility in your expenditure levels if your income or total returns do not meet expectations?

#### **Liability risk**

For those with pension schemes, how confident are you of meeting your anticipated pension liabilities?

This is a serious issue at the moment and one the Pensions Regulator is examining. It is concerned that charities are not giving sufficient thought to aligning their overall investment strategy, combining a strategy for the assets as well as a

strategy for the liabilities. An over-reliance on just one side of the equation may raise some concern.

#### **Currency risk**

If you have a global portfolio, are you happy that your manager has appropriate hedging and exposure strategies in place to exploit favourable currency movements and mitigate unfavourable ones? Typically, we hedge the currency back to the base currency (GBP) of the portfolio to reduce the risk of adverse currency movements undermining positive performance.

#### **Inflation risk**

Inflation does not seem so threatening at the moment, but many economists fear that the price of quantitative easing will be inflation further ahead. This will affect asset allocation decisions – you may need assets that are inflation resilient. It is also important to consider the impact of inflation on the costs of a charity.

The overall headline government figure may not be representative of the true inflation costs in your particular organisation and this may influence investment decisions.

#### **Concentration risk**

Is your portfolio sufficiently diversified to reduce the risk associated with a particular security (individual corporate bonds or equities), a sector (for instance, energy) or asset class (like fixed income) imploding?

If you invest in funds, it is useful to understand your aggregate exposure to an asset or asset class; holding multiple funds does not necessarily equate to diversification if there is overlap in the underlying holdings. Equally important is the cross correlation between asset classes. A classic example is that some high yield and emerging market bond funds move in close proximity to equity markets.

### **Credit/counterparty risk**

It is also worth pressing your manager to look at what checks and balances are in place within your investment portfolio to ensure that you are not overexposed to any single bond issuer or deposit taking institution.

### **Reputational risk**

One word will suffice to illustrate this risk: Wonga. The Church of England's controversial exposure to the payday loan business was through a fund. It is a further reminder to those responsible for investment decisions to be well informed and aware of the

underlying investments you hold, and to consider if an ethical investing policy would be in the best interests of the charity.

### **Fee risk**

Finally, an often-overlooked risk is that of hidden fees. Over the long term they have a significant impact on returns. Do you know all your investment management costs? Is your manager being remunerated for each transaction? Are you getting what you pay for – or still getting what you agreed to pay for – from your investment manager?

### **Conclusion**

Catalogued like this, these risks can look daunting. Perhaps it is easier to think of them as agenda items to be addressed with your investment manager. Remember, too, risk is not always bad. Without it, there is little reward.

*This article originally appeared in Finance Focus magazine in September 2015.*

**Nicola Barber**

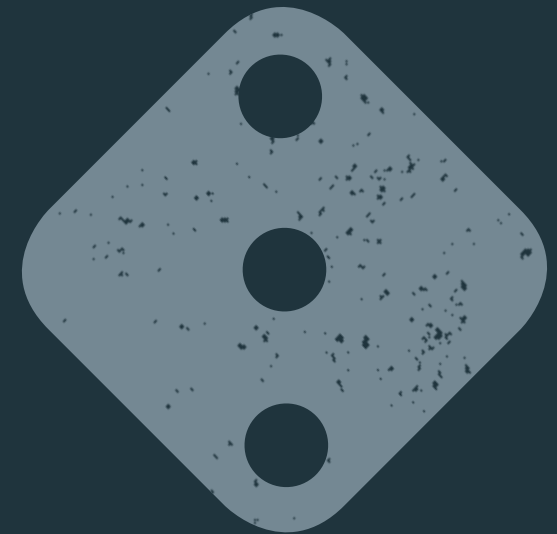
*Head of Charities, James Hambro & Partners*



**“ We have a responsibility to identify and continually monitor the risks facing the organisations we represent ”**

# 06

## RISK MANAGEMENT



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# RETHINKING RISK

## ***How can charities go beyond a tick-box approach to managing risk, and what impact will SORP 2015 have on charity's approach to risk management? Kate Sayer explains.***

Risk management is one of those subjects that has been around forever but keeps being revisited because of corporate governance failures – whether in the private sector or the charity sector. For charities, the main impetus for formalising their risk assessment came in 2000, when the Statement of Recommended Practice (SORP) for Charities required larger charities (those with an income over £250,000) to state in their trustees' annual report how they assessed and mitigated risks. This led to the introduction of more formal ways of managing risk, including corporate risk registers.

### ***Beyond risk registers***

Most charities have a risk register, and this will be scrutinised by the Audit (and Risk) Committee, with at least an annual visit to the Board's agenda. However, concerns are being raised that the register does not go far enough, plus it has inherent problems; no risk register can ever be complete because we cannot know all future risks. But many also complain that risk

registers are too long, too detailed and mix up strategic and operational risk. Many managers have had enough of long lists of ranked risks and feel that we are missing the point.

### ***Risk taking***

Listing risks and assessing them perhaps led many to believe that the purpose of risk management was to avoid risks – minimising them and reducing the likelihood of adverse events occurring. But charities need to take risks to fulfil their charitable purpose. So it is important for boards to articulate their risk appetite – where should the charity be risk-taking and where should it be risk averse? For example, a charity may decide to take risks in its grant-making but to be risk averse in its investments. Developing a risk policy sets the context for the risk register. Now when the trustees review the risks and how they are managed, they can ask themselves whether the charity is taking enough risk in some areas. In addition, trustees want to be more nuanced about taking risks – it is one thing to take risks with funds, but it is more serious to take risks with the charity's reputation.

### ***Managing reputational risk***

Risks to reputation are always the most highly ranked risks, but commonly the actions to manage these risks are the least well developed. In recent times, the

effects on a charity when it experiences knocks to its reputation have been publicly visible. Reputational risk is not in a separate category but is an aspect to all risks and all activities. Charities are highly aware of the need for sound safeguarding procedures and not simply those charities working with children. But successful management of a charity's reputation goes further than that. Your charity's reputation is based on the experiences of your various stakeholders – funders, service users, donors, employees, volunteers and so on. If they are disappointed because their experience of your charity is lower than they expected, then your reputation takes a dip. By contrast, of course, your reputation is enhanced if their experience of your charity is better than expected. What is difficult here, of course, is gaining an understanding of your stakeholders' expectations. It is not enough to simply "do the right" thing. Negative publicity does not have to be true to do damage.

You can be proactive about managing your reputation however. It pays to be more transparent about how your charity makes decisions, how it raises funds, how it pays its staff – all the areas that may cause consternation if you fall short.

### ***Risk-based reserves policies***

The reserves a charity holds are the unspent unrestricted reserves, plus they are only free reserves if they are

available to spend on the charity's purposes. Every charity should have a reserves policy, but it should be based on a clear understanding of the business risks the charity faces. Having assessed risk, the trustees need to consider how the risk may be managed. Holding financial reserves is not the only way to manage risks, but is usually the last resort. A risk policy should therefore underpin the reserves policy.

### ***Assessing the quality of risk management***

For charities that employ staff, the responsibility for managing risk resides with the managers. Senior managers should constantly keep strategic risks under review and highlight changes to the relevant committee or the board. Middle managers are responsible for managing operational risks. Oversight is necessary and the audit committee is usually responsible for assessing whether risks are being managed effectively.

Some larger charities will use internal audit to help them assess the effectiveness of controls and management action to manage risk. All charities need to consider how they will gain assurance that their key risks are being managed. Some quality systems may help here as they offer the flip side of risk, providing assurance over operational processes and potentially support functions. For example, Investors in People will provide assurance that

**“It is one thing to take risks with funds, but it is more serious to take risks with the charity's reputation”**

people management risks are being managed well.

Some areas of risk are part of your regulatory compliance and so will need systematic checks such as health and safety or data protection. You can integrate these systematic checks into your map of assurance across the charity and this will help you to assess where further work may be needed.

### ***Risk culture***

Probably the most important aspect of risk management is getting the culture right. As part of good leadership, senior managers and trustees need to set the right tone for their organisation. Communications about risk culture do not need to be explicit – it will be obvious to staff and volunteers by the way in which you describe activities, make decisions and the behaviours you reward. So risk-thinking needs to permeate all your management activities and not just be side-lined into an annual review of the risk register.

### ***Conclusion***

Coming full circle, in 2016 charities will have to implement the Statement of Recommended Practice for Charities issued in 2015 (SORP 2015). This requires trustees to include in their annual report “a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their

plans and strategies for managing those risks”. This goes much further than a bland statement that “trustees conduct an annual review of risks” and does require disclosure of the fundamental risks and how they are managed. Future editions of this publication can review the approach that charities take.

**Kate Sayer**  
Partner, Sayer Vincent



# WHAT IS THE VALUE OF A GOOD NAME?

***Your charity's good reputation is invaluable. How can you ensure it stays untarnished, even if something goes wrong? Kim Catcheside explains.***

What is the value of a good name? Possibly more than you would imagine. Too often organisations fail to put a realistic value on their reputation until it's under threat. I can understand why, when every penny counts on the front line for beneficiaries, it can be difficult to persuade boards of trustees to invest in good communications. The result is that many businesses and not-for-profits are exposing themselves to unnecessary risk.

Since I left journalism to become a consultant five years ago, I have been amazed by the number of businesses and charities who fail to invest in protecting their reputations, let alone enhancing them. Communications is left to a mid-ranking or even junior members of staff with no influence amongst senior colleagues.

I firmly believe that communications should be represented at executive board level and that the post should have equal status and authority with other members of the SMT. "Well", I hear you say, "as a director of a consultancy reliant on the fees of not-for-profit organisations such as the members of CFG, you would say that, wouldn't you?"

Actually, believe it or not, I am advocating against my own interests because quite a lot of the business that comes to companies such as mine, is from organisations that have failed to invest, to build and protect their reputations and are paying the price. They may be facing a crisis that could have been avoided, or they may be being outpaced by rivals who have worked to raise their profile and influence with decision makers, funders or customers. Usually it's both.

As a former BBC correspondent, I found the comedy W1A, which satirised the corporation, unmissable. Hugh Bonneville of Downton fame plays the BBC's 'Head of Values', leading a team of ludicrously titled senior executives into a series of avoidable elephant traps. Among them is a BBC communications manager who greets each disaster with the prophetic warning "I'm not being funny but how will this look in the Daily Mail?" Naturally she is ignored, but where's the humour in trouble averted?

Nevertheless I feel that the writers had hit on a fundamental truth about the value of a good communications professional. It's their job to prevent organisations from becoming inward looking and to force them to see themselves as others see them. They ask awkward questions and highlight the risks of projects and plans that may be cherished and promoted by powerful colleagues. As finance professionals, CFG members are responsible for

meeting ever more demanding standards of transparency.

Having a good communications director asking awkward questions is useful. When you explain that it's not possible to spend money on this or that because it's against the spirit of the rules, a good communications director will back you up: "How would that look if it got in the Daily Mail?" they will ask. The point will be made and the responsibility for killing the cherished hopes of a colleague shared. Much of the work that comes my way these days is the result of a failure to ask such awkward questions.

Of course stuff happens. There will always be crises that cannot be prevented. Fortunately, handled well, a crisis can actually improve reputation rather than weaken it, and can provide opportunities. Charity Comms is a membership organisation for charity communications professionals dedicated to spreading good practice through the sector. My company, Champollion, worked with them to produce a practical guide which contains advice on how to respond to a crisis. It can be downloaded free from [www.charitycomms.org.uk](http://www.charitycomms.org.uk).

So what does good crisis communication look like? First, like a person with a drinking problem, the crisis has to be acknowledged and the scale of it recognised by trustees and the senior team.

Second, there should be a plan with clear protocols and everybody should understand their role. The best crisis communications takes place long before anything goes wrong. Again this is often about challenging denial in your organisation. It's impossible to avoid risks, but ensure that these are recognised and properly assessed and that you have statements prepared for the media in the event that they are realised. If there is a plan in place then it will be possible to manage the crisis in a calm and efficient manner so that staff aren't panicked, and external audiences can have confidence that you are in control.

Third (but also first), your response should reflect the honesty and integrity that is core to your values as a charity. Your response must be speedy but it is absolutely essential that it is accurate. Ensure all facts are checked and double checked. Don't be tempted to hide information; it will come out.

Fourth, ensure that your spokesperson is prepared and messages are consistent – particularly on social media and with stakeholders. Media train key spokespeople if possible.

Fifth, apologise if it is appropriate to do so, and be clear that action is being taken. But don't rush into an apology if it's not your fault. Finally, don't feed the beast. Once you have given an honest explanation demonstrated that action is being taken and if necessary apologised, move on.

**“ Too often organisations fail to put a realistic value on their reputation until it's under threat ”**

After the crisis don't forget your internal audiences and stakeholders. It's too easy for smaller organisations to forget to care for those close to them when they are dealing with a fire storm. Be mindful of staff who have taken the physical and emotional strain of the crisis and re-assure stakeholders.

If the crisis has been properly prepared for, and your plan well executed, there is a good chance your charity will emerge stronger over time. This is the moment when the creative talent of your communications team can really show its value and exploit the heightened interest and create opportunities to get positive media exposure.

*This article originally appeared in Finance Focus magazine in November 2015.*

**Kim Catcheside**  
Director of Champollion



# LEADING ON REPUTATION RISK MANAGEMENT

***In light of the criticism of fundraising practices and negative stories in the media about charities, Kate Sayer discusses some of the most common risks to your charity's reputation, and how you can proactively manage these risks.***

The problem with the seemingly endless negative stories in the media about charities is that it damages the charity 'brand'. All charities are scooped up in the simple phrase "they're all the same". Even if your charity does not engage in cold-calling or other fundraising methods that have been criticised, it is still worth thinking about how you can shore up your reputation.

The biggest risk to your reputation is a gap between what you say and what you do. So if you are advocating that people should be treated fairly, but do not pay your interns, then you will get a rough ride from commentators. It is not simply a matter of having strong values, but actually thinking through how you should live those values.

A killer risk is non-compliance with safeguarding procedures. Any charity working with vulnerable people must be able to demonstrate that this is an area they take seriously.

The problem with reputational risk is that it is about how people perceive your charity. A story about a trustee having child pornography on a laptop computer in their possession would be enough to undermine the credibility of a charity working with children. The story does not have to be true – the allegation would be enough to severely damage its reputation.

So how are people's perceptions formed? It depends on their experience of that charity – in what they read, hear, see or how they feel in their own dealings with that charity. People compare that to their expectation. Since charities as a sector appeal to people's altruism, asking for donations of time and money, then it is no wonder that so many people are surprised when they learn that the senior staff of charities are paid normal salaries. It jars – because charities are saying

'this is about altruism' and then acting in a way that seems self-interested.

## ***Opportunities to set the tone***

There are practical ways in which you can affect how people perceive your charity. Consider the areas where concerns are regularly voiced – fundraising methods, salaries, admin costs etc. What can you publish that will pre-empt those concerns?

- **Describe what your charity actually does.** It may be obvious to you, but explain it anyway. I remember criticism of the National Lottery for funding a charity called Hopscotch – actually a women's refuge, but you would not have guessed that from the name.
- **Explain where you get your funding from** – in simple terms, without numbers.

**“The biggest risk to your reputation is a gap between what you say and what you do”**

**“It is not simply a matter of having strong values, but thinking through how you should live those values”**

**Kate Sayer**  
Partner, Sayer Vincent



- **Draw up an ethical code of fundraising conduct in plain English.** If you buy in lists, then say so, but explain why you do it. Many charities do not use fundraising agencies or any of the methods that have been criticised, but remember that the public do not know this. Explain what you don't do as well, and what the ethics of your approach are.

- **Consider what you are going to say about executive salaries.** You don't have to follow the NCVO code, but you do need a coherent remuneration policy. This should also address staff pay at the bottom of the scale and what you are doing about the living wage.

- **What do you know about your suppliers or corporate partners, and whether they behave ethically?** Many companies now ask their suppliers to sign up to their code of conduct. For important partnerships, you should look into due diligence before you tie yourself in to joint working.

- **If you have investments, think about where you put your money and whether your supporters would question that.** An ethical investment policy is not a requirement for every charity, but do say something about it.

- **Think about how an external reader might look at your balance sheet and particularly your reserves.** A donor gives to a charity because they think they need the money to spend, not to stash in reserves. They will not necessarily understand that you are running a charitable business and need working capital and contingency funds. This might be a good time to check that your reserves policy stands up to public scrutiny.

Don't fudge the issue. If you don't have a coherent policy, now is the time to address this. If someone sees your statement and knows it to be untrue, then it is likely to make things worse.

It is particularly important that you explain this to your staff and volunteers as well. They should be proud of the charity they work for, but need a little reassurance on these issues now too.

*This article originally appeared in Finance Focus magazine in November 2015*

CFG's **Risk and Fraud Conference** will be taking place in December 2016. More information will be available at [www.cfg.org.uk/events](http://www.cfg.org.uk/events).



# CREATING A RISK MANAGEMENT CULTURE

**Fiona Davidge offers tips on making risk management central to organisational culture.**

CFG have published many articles over the years offering useful advice about the tools, techniques and structures that charities can use to recognise and manage risk in a systematic and effective way. However, it is still too easy to be put off by the apparent complexity of a risk management framework.

Many charities think they are too small or informal to need one. Others believe that simply having a framework in place means that all their risks are automatically recognised and managed. In reality, a framework of processes, procedures and reporting is only one side of the picture; the other side is your organisation's culture. Does it encourage and support the continuous recognition and management of risk?

## Creating a culture

In 2012, the Institute of Risk Management (IRM) produced a useful report on large-scale risk-management failures, partly as a response to the global financial crisis. Titled *Risk Culture*, it emphasises that risk is actually managed by everyone in an organisation. At both individual and organisational levels, attitudes, behaviours and beliefs can greatly influence how effectively risk is

“Effective risk management should be valued as an enabler, not an inhibitor”

recognised, understood and managed.

Organisational culture can be difficult to measure, but the IRM named 10 important concepts that promote a positive risk environment:

1. A distinct and consistent tone from the top in respect of risk-taking and avoidance;
2. A commitment to ethical principles;
3. A common acceptance throughout the organisation of the importance of the continuous management of risk, including clear accountability for, and ownership of, specific risks and risk areas;
4. Transparent and timely risk information flowing up and down, with bad news rapidly communicated without fear of blame;
5. Encouragement of risk-event reporting and whistleblowing, actively seeking to learn from mistakes and near misses;
6. No process or activity too large, complex or obscure for risks to be readily understood;

7. Appropriate risk-taking behaviour rewarded and encouraged; inappropriate behaviours challenged and sanctioned;
8. Risk-management skills and knowledge valued, encouraged and developed;
9. Sufficient diversity of perspectives, values and beliefs to ensure that the status quo is challenged;
10. Alignment of culture management with employee engagement and people strategy to ensure people are supportive socially but also strongly focused on the task in hand.

These concepts do not replace the need for an embedded and consistent risk management framework, but they do place the focus where it belongs: on people. It is people who must recognise, understand and manage the effects of uncertainty on the charity's objectives.

Debate on risk management has also been furthered by the International Standardization Organization (ISO), which created a set of principles and guidelines for

risk management. Rather than offering specific instructions, these standards set out larger ideals about how organisations should integrate risk more closely into day-to-day management techniques and routines. For example, the ISO says that risk management should “be part of decision-making”, “tailored to suit organisational needs and context”, and “take human and cultural factors into account”.

## Successful integration

Integration of risk into organisational practices means avoiding the temptation to create a totally stand-alone framework, which is a solution often favoured by consultants and auditors because it can be simpler to implement. Yet experience shows that this approach rarely stays current, is often disliked, and adds extra work and administration for staff. A more effective approach is to weave your risk management framework and process(es) into existing management meetings, reporting structures, procurement,

finance, sales and other management systems.

It is particularly important that all strategy development and planning has risk management as a key component, so that potential risks to your objectives are considered and mitigated if possible. The challenge is to make sure that managers are consciously considering risk in their daily routines, and managing them in a systematic and visible fashion.

Finally, effective risk management should be valued as an enabler, not an inhibitor. All too often, it is viewed as a framework that says “no” and slows you down. However, it can be better compared to a set of brakes in a car. Yes, brakes are a mechanism to stop you, but they also allow you to turn corners safely and slow down in response to uncertainty. It puts you more in control of your charity's destiny.

*This article originally appeared in Finance Focus Magazine in December 2014.*

**Fiona Davidge**

*Enterprise Risk Manager,  
The Wellcome Trust*



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# EVALUATING RISK: BEYOND THE RISK REGISTER

***The Blue Cross changed the way it looks at risk to better account for strategic threats. Richard Hollands explains.***

Like every organisation, a charity faces risks that affect the achievement of its objectives, and there are various ways of categorising risks which help in terms of their identification, measurement and treatment. At Blue Cross, the pet welfare charity, we recently re-visited this area of work, redefining risks and in particular, what we meant by strategic risks.

We took strategic risks to be those that were fundamental to our charity, and which if they were realised with no effective response, could threaten our survival and continued existence. Through this work, the executive team agreed that the characteristics of a strategic risk were:

- Largely related to external issues outside of the charity and outward-facing in their nature;
- Difficult to predict in terms of when they might happen;
- Hard to measure when assessing the level or scale of the risk's exposure;
- Involving multiple "players" who were significant to the work we did – typically this meant a major delivery partner, part of the charity's extended enterprise, or its supply chain.

We also decided that a strategic risk embodied the features of being 'Volatile, Unpredictable, Complex and Ambiguous'. In risk management fields, this description has quickly been converted into the acronym of VUCA. Examples of strategic risk often reference the work or impact of competitors, the economy and the supply chain, amongst other things.

## ***Environmental awareness***

There is a powerful management story that speaks directly to the idea and impact of strategic risk. This is the disturbing tale of a frog being killed slowly. Frogs are poikilothermic creatures, which means that they are unable to regulate their core body temperature and can't detect changes in external conditions. The tale goes that if a frog is placed in a pan of water and the heat of this

water is gradually increased to boiling point, it will not bestir itself and will, in theory, allow itself to be slowly boiled to death.

It's unclear if the tale is based on fact or fiction, but for anyone who works for a pet welfare charity which is full of animal lovers, the idea it offers up is an unsettling and upsetting one. When applied to a business and management context, it provides a worrying metaphor for any organisation that does not monitor or manage strategic risks, and is unable to understand the external environment it operates within. The implications of not identifying and responding well to significant changes can ultimately result in an organisation's demise.

Such thinking invites the following question: can strategic risk be managed if organisations are at the mercy of external factors much bigger and much farther reaching

**“ Can strategic risk be managed if organisations are at the mercy of external factors? ”**

than their immediate operating environment? And if the answer is yes, how do they go about it?

To help consider this question, it is also worth understanding other risk types, and we found making such a distinction helped us formulate possible responses. We defined operational risks as more routine and day-to-day in their nature, usually limited to the internal operating environment of a charity and often something already known or encountered before. They are more predictable, and as a result they are often easier to measure and manage through mitigations and controls that have been proven to work in the past.

Strategic risks exist outside of this framework, and organisations are rarely in a position to be able to manage, influence or control them. This is principally because their "drivers" are so long-term and far-reaching beyond any single organisation's boundaries of activity or power.

## ***Risk registers***

The traditional response to the measurement and management of risks has been through the use of risk registers. Whilst their design may vary in some points of detail across organisations, they usually consist of data about impact (a measure of the risk's consequence, should it occur), likelihood (the probability of the risk happening) and controls or mitigations (the steps

**“ The implications of not identifying and responding well to significant changes can ultimately result in an organisation's demise ”**

taken to limit a risk's effect). They can provide good data around risk exposures, and when implemented and operated well, they are an effective way of identifying and responding to risk.

However, the application of registers alone for managing strategic risks quickly highlights their limitations and the need for additional and different approaches. This is mainly because they reference and employ management controls which are based on the principle that (operational) risks are predictable and manageable. We found that our redefinition of strategic risks for Blue Cross did not embody these qualities. This is not to say that registers are not valuable and don't provide managers with useful management information, but they are not the complete response needed, particularly when operating in VUCA conditions.

## ***Using management information***

At Blue Cross, our work is now focused upon developing other reports and information to meet this need. This recognises that strategic risk can't be controlled from within a charity but that the ability to identify and detect changes in the external

world provides us with the chance to put in place responses in order to be resilient should large-scale and external events materialise. The key lies in the use of different management information about risk.

The table on p.86 explains the approach developed at Blue Cross in response to the challenge of strategic risk to our charity. The first layer of information makes use of factual information. This already exists in most organisations and is of particular value in known and common areas of risk, i.e. tactical and operational risks.

The second, diagnostic, layer relates to situations where the same risks exist simultaneously across an organisation. For example, multiple work units within a charity may all have similar or identical risks for, say, finance or operational performance. In such instances, the aggregation of information for similar risks enables the organisation to identify patterns or trends. The use of risk indicators to help understand the triggers for such risks supports this principle further, and provides some insight into why risks occur and more effective ways of mitigating them.

The use of diagnostic risk information also applies to pan-organisational risks (e.g. for change management

or business planning). By understanding why a risk is occurring or exceeds an agreed tolerance, you are part way to identifying what can be done about it. This approach can also be enhanced by software and other methods that report history or movement analyses.

The predictive layer of risk information reaches outside of the organisation, and attempts to measure changes in the environment. This requires the development of techniques that will detect and report such changes, and represents a real change and challenge to how we have traditionally thought about risk. Developing this approach remains a work in progress for us, but we have started this journey and are evaluating options to ensure we hear and see what is happening in the world and get early warnings to this effect.

### The four Rs

As part of our review of risk management, we identified four basic tests to determine its effectiveness. We have defined them as the four Rs. We now consider if our risk management arrangements:

- Enable us to be **responsive** to changes in our operating environment so that we can manage threats and maximise opportunities;
- Help us develop **resilience** so that we can adapt to adverse events and changing circumstances

- Ensure that we remain **relevant** so that our services are fit-for-purpose and up-to-date for those who need us;
- Ensure that we are **reliable** and can be trusted in the things we do and how we report them.

These tests will also be applied to the development of our management information needs for risk.

To summarise, the first level of information (factual) is about control and mitigation of known risks and meets our “reliable” and “relevant” tests. The second (diagnostic) level is about effective measurement to identify movement and trends in risks. This level needs good factual risk information as its basis and when used in concert with it, satisfies the “resilient” test. The final and third level (predictive) is about understanding our environment and our stakeholders within it to ensure our survival and future success. This satisfies the “responsive” test.

All three have their place but those that can develop and master the third will have a strategic advantage over their peers and competitors. To use a meteorological point of reference, it’s the difference between using a thermometer and a barometer: the first two levels of information tell you how things are; the third helps you anticipate what’s coming and what you can do about it.

At Blue Cross, we know we are not there yet in having a response to strategic risks that is as fully formed

or as comprehensive as we want. However, the process of re-defining what we mean by strategic risk has helped us hugely in identifying what we need, and we are working towards a solution to understand our environment and stakeholders better.

*This article originally appeared in Finance Focus Magazine in November 2014.*

#### Richard Hollands

*who at the time of writing was Director of Business Assurance, the Blue Cross*



### Types of risk information: The Blue Cross definition

#### FACTUAL RISK INFORMATION

Data about a risk (or risks) at that point in time. It presents the straightforward position of the risk status, exposure, etc. This is largely internally focused and is not influenced by external factors.

#### DIAGNOSTIC RISK INFORMATION

Builds upon the first level by using risk indicators and analysing a risk’s history to identify a trend. It may also analyse risk indicator information or control assessments to try to understand the level of a risk. There is some link between internal and external data sources.

#### PREDICTIVE RISK INFORMATION

Further builds on the existing information levels. Attempts to measure and interpret changes in the external environment and what this means to the organisation in terms of the achievement of its plans and objectives.

# 07

## PERFORMANCE AND GROWTH



### IN THIS SECTION

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# IMPACT REPORTING AND YOUR ANNUAL REPORT

***It's easy to focus on the numbers, but charities must also consider the procedures they have in place to ensure that outcome and impact information in Annual Reports are accurate, says Tom Davies.***

What does the new SORP say about the narrative aspect of annual trustee reports?

There's been a significant amount of discussion about the impact of the new accounting standards and the new FRS 102 SORP. Naturally as accountants we've spent a good deal of time talking about the resulting changes to the numbers and therefore on the back half of the annual reports – on the SoFA, Balance Sheet and, of course, holiday pay accruals!

But the front half – the narrative contained within the Trustees' Report – is of huge importance, a fact explicitly stated within the SORP:

***“Good reporting provides a context within which to interpret the accounts and links the activities and achievements reported with the sources of income used to finance them and the expenditure incurred on those activities. A charity's accounts focus on its financial position and financial performance. In isolation***

***this information does not give the user a rounded overview of what has been achieved from the charity's activities and the resources used in their delivery. The report and accounts taken together should provide a picture of what the charity has done (its outputs) or achieved (its outcomes), or what difference it has made (its impact).”***

It is a commendable development that the FRS 102 SORP has sharpened its focus on this last topic – the issue of output and impact reporting within the sector – commenting that:

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

## ***Moving toward impact reporting***

This move reflects and encourages further the significant developments which the charity sector has made over the area of impact recording and reporting. Supported by sector programmes such as Inspiring Impact, many charities are now either including enhanced impact reporting in their annual report or producing separate impact reports. These organisations recognise that this information is of real interest and

importance to funders and other stakeholders who want to understand the difference that the organisation is actually making and how successful it is being in achieving its stated charitable objectives.

Enhanced impact reporting is a trend which will no doubt develop further. Indeed, senior management and trustees should encourage this reporting as it will help focus readers' minds on what the charity is actually achieving rather than on the more superficial review of traditional financial KPIs, such as the relative percentage of charitable spend, which are regularly found to give a misleading picture of an organisation's performance.

However, with this increasing amount of reporting, it is important to ensure that charities are confident in the veracity of the information which they are publishing – both in trustee reports and in other publications. As auditors and senior finance staff, we spend a lot of our time focussed on the financial numbers, and typically information about outputs and impact included in the trustees' report receives a lesser level of formal scrutiny.

## ***Reporting about impact accurately is vital***

Given the importance of this information, and the potential reputational risk of the charity making an inaccurate or contentious statement about their impact, I would strongly recommend that

organisations consider the procedures they have in place to ensure that the outcome and impact information is accurate. Just as it's easy to make a mistake double counting a row on a spreadsheet in preparing the financial statements, so it is just as easy to make the same mistake on a spreadsheet containing, for example, information about the number of beneficiaries helped that year by the charity. Indeed, the risk of error in this information is further increased by the fact that a number of different teams are regularly involved in producing it.

Some controls which we would recommend include internal second reviews of the information, or possibly a peer review from another organisation about how the information is compiled and presented. Given its importance you may also ask your internal auditors to include such a review within their annual work programme. Alternatively, your external auditors or other assurance firms can perform an agreed upon procedure to specifically review the data, the assumptions and the control process in place over the collection and dissemination of this output and impact information.

At this point it is of interest to note (as it does at times come as a surprise) what level of work your external auditors are formally required to perform over this information. Practice Note 11, the guidance for auditors, says the following about the work auditors are required to perform on the information contained in the annual report (emphasis added):

***“The auditor reads the other information contained in the annual report in the light of the knowledge it has acquired during the audit. The auditor is not expected to verify any of the other information. The auditor reads the other information with a view to identifying whether there are any apparent misstatements therein or matters which are inconsistent with the financial statements.”*** (Para 263)

It is also important to consider the role of the Trustees in relation to impact reporting. Trustees are required to consider the controls in place over the organisation's finances, so too should they be involved and understand the procedures in place over the collection and presentation of output and impact information.

Given the nature of impact reporting, it also regularly includes a number of judgements and estimates and it is not uncommon for calculations to use proxy indicators, extrapolations, third party reports etc., as part of an organisation's impact assessment and reporting. It is therefore important that the Trustees and management are aware of these and have considered their reasonableness as these are likely to be scrutinised by third parties reading these reports. Furthermore, it is also important to consider how transparent the charity is in its impact reporting about disclosing and discussing the inherent judgements and estimates applied.

It is worth noting here that such procedures should also extend to any separate impact report which the charity produces. From

experience I have seen examples where such reports are not seen at the Board level (including at any Audit and Risk Committee meeting). I would recommend that charities ensure that such publications and reports are formally considered and approved at an appropriate level within the charity's governance structure before they are made available to the public.

As the importance of impact reporting rightfully increases within the sector, it will be down to all of us involved in producing and reviewing this information to ensure that, in demonstrating the huge impact the sector has, that it is presented in is as meaningful and accurate a manner as possible.

**Tom Davies**

*Director – Not for Profit, Grant Thornton UK LLP*



**“Typically information about outputs and impact included in the trustees' report receives a lesser level of formal scrutiny”**

# AGILE PROJECT MANAGEMENT: BUILD, MEASURE, LEARN, REPEAT

**Kieron Kirkland explains how an “agile” approach to product and service development can encourage innovation.**

One of the things that charities are constantly being told to do is innovate, as if it's a dance step they should suddenly know. That's all well and good, but in a cash-strapped, time-poor environment, how do you find the space to learn a new dance while also keeping the party going – making sure the band is playing, the bar's open and your guests are being looked after?

Finding effective ways of being innovative with our new products or services is something we've been working hard on at Nominet Trust. We've been developing a process that makes this accessible, effective and realistic. But in a world where even a washing-up liquid will claim to offer “disruptive change”, what does “innovation” actually mean? We define it as “the application of new ideas, generated at the intersection of insight and invention, which leads to social or economic value.”

The two key terms here that will help charities innovate are “insight” and “invention”. Insight means getting valuable information through feedback from your service users. Invention means coming up with new ideas and applying them. Sounds good in theory, but what's the best way to do this?

**From waterfall to agile**

When attempting to be innovative with products or services, take an agile approach to project analysis, management and delivery. Traditional project management often uses a “waterfall” methodology, meaning that you plan everything up front, then go off and build it. “Waterfall” approaches are convenient from a managerial and administrative point of view, as they allow you to plan a project and then leave people to implement it.

However, this method doesn't lead to the best results when trying to innovate. In our experience, it is far better to take an “agile” approach. We've borrowed this way of working from The Lean Startup, a set of principles often used by software developers. The principles were pioneered by entrepreneur and author Eric Ries, who recommends that a product development cycle

should be based around three stages: “build, measure, learn”.

First, build the basic version of a product or service, then measure it to see if and how it works, then finally take that learning back into the next building phase. At the beginning of each development cycle you start with a hypothesis (an assumption about what you think will happen), which is then tested to see if your prediction was correct. Each measurement should inform the bigger picture and the next section of development. You will almost inevitably find that products or services change direction or pivot, as what we think will (or should) happen almost never does.

Facing up to this, and building processes to adapt to this inevitable change, is key.

There is a danger in blindly assuming that what you planned for six or 12

months ago will still be relevant in a rapidly changing world.

## Agile in practice

Why is this approach useful for charities? Charities are cash-strapped, and this approach can save a lot of money by allowing you to avoid building (and paying for) things upfront that you won't need in the long term. Secondly, it takes advantage of what charities excel at: working closely with beneficiaries and developing unique services to support their needs.

It's not all roses though. In building, testing, and developing services, care needs to be taken when choosing appropriate groups to pilot and develop them with. It will also take support from a charity's leadership team, and a commitment to be flexible and understand that a new product or service will adapt over time to be most effective.

We've seen some great examples of where this agile approach has worked at Nominet Trust, and one of the best was the Sidekick School

**“Charities are constantly being told to innovate, as if it's a dance step they should suddenly know”**

programme we funded in 2012.

Sidekick Studios worked separately with four large charities, each for an intensive three-month period, to help them innovate with new products and services.

Just one of the great services that emerged from this process was Task Squad, developed by the national youth charity vlnspired. Task Squad addresses youth unemployment through a platform that helps young people find short-term paid work opportunities, thereby gaining the crucial experience they need to get into the job market. Task Squad has since gone on to win a Google Global Impact Awards and has been shortlisted for an EU innovation prize on social innovation.

This is just one example of how, with the right processes and support, charities can lead the way in innovating new ways to address the most pressing social challenges we face.

*This article originally appeared in Finance Focus magazine in December 2014.*

**Kieron Kirkland**

*At the time of writing, Kieron was Development Research Manager at Nominet Trust.*



**“Charities are cash-strapped, and this approach can save a lot of money”**



# WHAT IS THE FINANCE DIRECTOR'S ROLE IN STRATEGY DEVELOPMENT?

## Marg Mayne explains why Finance Directors must get involved when the time comes to revise a charity's direction.

It is always an exciting moment when you get the chance to be part of developing a new strategy. Whether you are leading it yourself or are part of a wider team, you know that the result of your work will set the direction of the charity for a long time into the future.

I have been lucky to be part of developing charity-wide strategy, both as finance director and as chief executive. There are lots of different approaches, and without being too rigid, I have found that asking four classic questions has always stood the test of time (see opposite page). However, when and how you ask the questions can make a big difference as to whether the final strategy is a good one.

### The right moment

The best strategies are a result of good timing. You don't want to re-strategize every few months; if you did, you would never find a consistent direction, or be able to build and sustain your work. Equally, if you have a strategy that is so old that it is no longer relevant, people will feel they lack direction and the charity will feel rudderless. I find a useful litmus test is to scan the external environment from time to time, and check whether it has

changed in any significant way since you last reviewed your strategy.

For example, discussing the top 10 strategic risks could help prompt this discussion. If things have not changed significantly, then it's probably best to stick with the current direction, and focus on implementation and delivering high performance. But if your risks have changed, see that as an amber light. This might be a good time to re-consider your strategy.

### Brainpower

The one essential thing needed to develop a good strategy is to think. Bringing in a wide variety of inputs, often from sources outside your organisation, can be hugely informative to your thinking. I have seen external experts positively disrupt the world view of the senior team, and have seen customers challenge thinking that is otherwise taken as accepted wisdom within the organisation. But equally, do not underestimate the resource of ideas, knowledge and experience that you have internally. Whether from a trustee or an employee on frontline delivery, there are real benefits in getting a broad range of people across the organisation to participate in the process. It needs to be structured, of course, but it might surprise you by stimulating creative ideas, surmounting ingrained obstacles, and unleashing previously hidden ambition.

## Developing yourself

It's not every day that you undertake a strategic review. So when you find yourself as the finance expert around the strategic discussions, take the opportunity to stretch your limits and explore beyond your day-to-day comfort zone. You will not only make a better contribution, but you will set the groundwork for how the other parts of the organisation work with the finance department going forward, as a strong and committed partner.

So what does stretching yourself look and feel like? I have found that taking part in strategy discussions developed me in three particular aspects:

### Growing your perspective

Much of our day is spent looking at in-year operations, quality systems and processes. Even when lifting your head to appraise investments, or reviewing a reserves policy, it is easy to see these things in a piecemeal fashion. Developing a company strategy gives the opportunity to get a broader view on the overall desires and capacity of the charity, and the long-term view on the next five or 10 years. Personally, I have found that the perspective I gain by being involved in strategy development has greatly enhanced the way I consider and take the operational decisions going forward.

### Exploring your creativity

Finance is often about structure, order, processes and putting things into the right boxes. But it is also about creativity, and strategy is a

great time to tap into our entrepreneurial side. A good strategy will be the result of having opened up some big questions, and seeking an array of thoughts and inputs before narrowing down to an agreed path forward. For the finance professional, accompanying the operational teams as they explore their ambitions can be liberating, encouraging us to be equally explorative about financial possibilities. Not all my creative ideas were good ones, and thankfully not all were agreed or implemented, but there were some golden nuggets that were joyous to identify and that made all the difference.

### Expressing your passion

We all know that finance people are supposed to be the ones who always take the "logical and rational" approach. But the reasons I have the career I do is because of my passion to make a difference in this world. And I am sure I am not alone. So strategy development is the moment to let that passion come through! Good strategies will be grounded in the organisation's mission, vision and values, and the strategy debate is the perfect moment to show your colleagues how important this is to you too. They will see how it influences your thinking – and will make sure they realise that not all finance people want to increase the service charges, cut operational budgets and stockpile the surpluses. Expressing my passion has helped me to build strong professional relationships when people realise that I get up in the morning for the same reason as them.

## Four classic questions to help build strategy

### 1. What is our aspiration and our goal?

This question deals with the core identity of the organisation, and can encompass vision and values. Though beware; it is harder to answer than it first appears. A good answer is one that provides a compelling rationale that resonates with all stakeholders – customers, donors, employees, and all those who have a major interest and commitment to the organisation.

### 2. Where do we want to play? And where not?

Prioritisation and focus is the hallmark of a good strategy, and so deciding what core business activities are in scope is critical, as is deciding what activities are not going to be undertaken. "Where to play" might look at business sectors, geographical areas, or partnerships. A good answer can be a powerful tool for giving the sort of direction that is readily translated into practice in the future.

### 3. How will we win?

We all want to win, however we define that success, and so it is an important part of strategy to identify the distinctive offer that the charity can make; what makes it different and stand out from the rest. For-profit businesses tend to talk more about "unique selling point" than charities, but it applies equally to both. Are you the biggest in the field? The best? Have you got exceptional customer service? Or a unique approach to addressing your

mission? Does your value for money outstrip everyone else? A good answer will end up being the first thing that people associate with you, and will be embedded in all aspects of your work going forward.

### 4. What capability do we need to build and sustain?

It may not be easy to determine what we want to achieve, in what field, and how we will be distinctive. But it is even harder to honestly appraise ourselves, our skills and capabilities, and to assess what we need to change in order to make our ambitions a reality. This is the bridging question between the strategy proper, and the implementation plan. A good answer will provide a strong bridge between the strategic ambitions and developing the road map or for getting there.

*This article originally appeared in Finance Focus magazine in February 2015.*

### Marg Mayne

*Chief Executive of Mytime Active*



“The one essential thing needed to develop a good strategy is to think”

*CFG's Inspiring Financial Leadership programme will be running again throughout late 2016 and early 2017. See p17 for details, or visit [www.cfg.org.uk/ifl](http://www.cfg.org.uk/ifl).*



# KPIs: A VALUABLE TOOL?

## Nicola May explains why KPIs don't just belong in the commercial sector.

A key performance indicator (KPI) is a measurable value that demonstrates how effectively an organisation is achieving its key business objectives.

KPIs are a popular buzzword within the commercial world and have been for many years, but they also have an important place within charities, where the need to understand (in real-time) the performance or contribution of each activity has never been more important. Many charities are facing restructuring plans, investment considerations and difficult decisions about which areas to focus on. With a broad range of stakeholders to satisfy, KPIs are rising up the board agenda.

So what does a good charity KPI look like? They could be measurements related to fundraising, donor interaction or expenditure. Yet given the diversity in the sector, it is not appropriate to set a fixed unit of measurement, as all charities differ. This creates challenges in comparability and in interpretation. There is a risk that cheap and easy measurements are used in a quest for comparability, leading to a focus on ratios such as fundraising costs. Yet such measures do not adequately allow for the many good reasons as to why charities have different cost ratios.

## The challenge

Part of the challenge for charities is that, in most cases, their aims are less visible and quantifiable than those for a commercial organisation. The first problem for charities is working out what to measure.

To get started, charities need to link performance measurement to their strategy. There is a need to be clear about vision, mission and values – why does the charity exist? What does it want to be? What are its guiding principles? Charities should then develop a series of strategic aims which will form the basis of board and management focus. This creates a need to think next about how success in achieving these aims will be effectively measured. In this way, KPIs play a key role in strategy development, measuring how efficiently a charity is operating and what progress is being made against its vision.

A frequent challenge for charities is that many strategic aims do not relate to financial outputs, or directly related outcomes that can be easily measured. For example, it may be a long time before an outcome is achieved, or it may be difficult to conclude whether it was the activity of the charity that made the difference.

However, it is important that charities do not focus wholly on outputs and outcomes, but on the journey too. Charities need a clear understanding of their key activities and should identify milestones to ensure progress can be measured along the journey.

## Measurement

There are a range of things that a KPI can measure, although measurements should be meaningfully related to the organisation. In other words, don't measure something just because you can. Key characteristics of a good KPI include:

- Clear definition – set a clear and consistent definition but ensure regular review for relevance. Set a target for the year and be mindful of sector or funder benchmarks;
- Assign responsibility – KPIs should be linked to the responsibilities of a particular person or section. This means someone should be able to act on the findings;
- Timely – if data is taking so long to collect that the organisation has moved on, it is of little value;
- Cost effective – measurement is a resources issue and grants and funders are not always willing to cover the cost;
- Integrated – look to use existing infrastructure where possible and build into administrative procedures. Do not make KPI measurement a bolt-on activity;
- Trend analysis – single metrics are of little use on their own and snapshots of information do not tell the full story. That means there is a need to measure and report on trends;
- Exception reporting – ensure exception reporting (identifying

and reporting on abnormal trends) is in place to see when things may not be going to plan.

## The risk factor

So what shortcomings do we see in charities when looking at KPIs? One of the big risks is that the KPIs are not connected to the "customer". In many cases, they focus on outputs only, without breaking the activity down into its component parts.

There is also a risk of short-term focus – if funding is received for a particular project for a period of time, this can influence the approach taken. There is often a lack of integration with organisational objectives, a focus on historical information rather than real-time activity. KPIs can be made overly complex. Charities should identify the standards of performance

“It is important that charities do not focus wholly on outputs and outcomes, but on the journey too”

achievement already in place, for example, requirements from funders, local authorities or regulatory bodies. Do not reinvent the wheel if information is already available.

On a positive note, while there is still a long way to go, KPIs are increasingly being discussed around the boardroom table.

Whether driven by funders' requirements, investment in restructuring, or as a result of increased competition, charities need to know the real-time performance or contribution of each key activity. There is no reason why charities cannot benefit in the same way as businesses from measuring KPIs.

*This article originally appeared in Finance Focus magazine in April 2015.*

## Nicola May

Not for Profit Audit Partner, Crowe Clark Whitehill



# MEASURING WHAT MATTERS

## *Paul Breckell shares how Action on Hearing Loss set its Key Performance Indicators.*

Before launching into our approach, the how-tos and how-not-tos of KPIs, let's first establish what we mean by the term.

KPIs are a set of quantifiable measures that allow an organisation to track and gauge its performance in reaching strategic and operational goals. They are the measures we use to understand whether we are making progress or not.

Why are KPIs important for charities? Because we can't just measure our success by our bottom line. We need a range of KPIs that indicate the impact we're having on the people we're here to support, the quality of our services, whether we have the necessary resources to succeed, and whether we're set up in the right way to deliver.

## *In developing our strategic KPIs, we have been following a four-step process:*

### **Research**

We researched best practice and what's been done in the private, public and not-for-profit sectors. We talked to colleagues in other organisations to understand what worked well and what challenges they faced. We read best-practice guidelines and reflected on what

worked well and what didn't for us in the past.

### **Ideas**

We talked to staff across the charity to understand what data teams are already collecting about their impact, and what they would ideally need to know in order to measure whether they are making progress. We were also keen to understand what issues staff considered crucial to organisational success, such as a strong brand, volunteering or partnership working. We wanted a set of strategic KPIs that we report on to the board, which would give a holistic picture of whether we are achieving our strategic aims and how well placed we are to continue achieving them in the future.

### **Testing**

Based on our research and the ideas collected internally, we developed several options for what our strategic KPIs might be and how we might

present them. We tested these in workshops with staff to engage and ensure ownership, and to interrogate, review and refine them.

We avoided the temptation to come up with a huge raft of KPIs and instead kept them focused. We were aware that too many KPIs would weaken our approach. We wanted our measures to align closely to our strategy to help people confronting deafness, tinnitus and hearing loss to live the life they choose; to enable them to take control of their lives and remove the barriers in their way; and to give people support and care, develop technology and treatments, and campaign for equality.

### **Roll-out**

We will start to report on our KPIs in the first quarter of 2015/16. As we progress throughout the year, we will monitor them on an ongoing basis to understand whether goals are being reached. This allows our leadership

team to test their hypotheses and make changes where necessary, enhancing performance throughout the year.

### **Top tips**

Developing strategic KPIs is a valuable opportunity to interrogate your goals and plans and make sure you're doing all you can to achieve them throughout the year. For charities in particular, they are essential to demonstrate impact, which is often the hardest thing to measure.

Based on what we have learnt in developing our own, below are some practical pointers that I hope will be of use.

### **Alignment**

Your KPIs need to align to your strategy. They should be indicators that tell you whether or not you are making progress in achieving it. The KPIs you set must be appropriate and proportionate to the stage you are at as an organisation – if your strategy is about embedding a certain approach, don't set KPIs around growth.

“ Why are KPIs important for charities? Because we can't just measure our success by our bottom line ”

“ We avoided the temptation to come up with a huge raft of KPIs and instead kept them focused ”

“The KPIs you set must be appropriate and proportionate to the stage you are at as an organisation”

#### Balance

You need to strike the right balance between being realistic and being challenging. While you want an element of stretch and ambition in your targets, you don't want to set unrealistic targets.

#### Promote discussion

The measures should enable management to ask the right questions and create a climate for action, support and high-quality discussion.

#### Flexibility

Getting the right KPIs takes some trial and error. Your measures need to be flexible to annually changing plans. Be upfront about the need for flexibility and build in time to review and tweak the KPIs you set at the start of the year.

#### Proxies

For some measures you might need to use proxies. You should not exclude something important for the reason that it can't be measured, as this removes it from the surrounding discussions. Be transparent about what your ideal measure would look like, the proxy you are using and why.

*This article originally appeared in Finance Focus magazine in April 2015.*

**Paul Breckell**

*Chief Executive, Action on Hearing Loss*



# 08

## LAW AND REGULATION



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Understanding public perceptions of charity regulation  
*Anjelica Finnegan and Kelly Ventress, CFG*



# INTRODUCTION FROM THE CHARITY COMMISSION

“ Trustees really need to engage with their core responsibilities ”

2015 was certainly a challenging year for charities and those who care about them, and we can already see that 2016 will bring even more, particularly for charity finance professionals.

The day to day challenge of securing funding and planning and managing tight budgets is likely to be especially acute as government spending restrictions bite and the impact of fundraising changes play out.

For us at the Charity Commission, our focus this year will be on the role that trustees are playing in managing and dealing with those challenges, strong governance and appropriate oversight. In 2015 we saw some very high profile cases where the role of the trustee board and their oversight of their charity's finances and fundraising were brought sharply into focus. If trustees were not clear that the buck really stops with them, then they should be now.

No one can afford to ignore or be complacent about the response from the public to bad fundraising practices highlighted last summer, and our new guidance (at the time of writing still in draft for consultation) sets out what we expect from boards in controlling and overseeing their fundraising. As always charity finance professionals should be at the forefront of understanding and responding to the particular balance of risks in your own charity when it comes to navigating the changing regulatory environment for fundraising.

For some trustees the recent focus on their role may have been a welcome recognition of their true contribution; for a few, a necessary wake-up call. For others, it might have caused some real anxiety about the level of responsibility they are carrying. I understand all those reactions. Nobody wants trustees to curl up in a ball of worry, or throw in the towel. That's not the answer to helping the sector get on the front foot. The clear message from the regulator is that trustees really need to engage with their core responsibilities and we do them no favours to pretend otherwise. As to the professionals who support them, you must do so by enabling the difficult decisions, not allowing them to be ducked; and drawing on your professional judgement to raise a flag when something is wrong or needs more attention.

Finance can be an area where trustee confidence is low but in the current financial climate, charities will only be resilient where the board has a real grip and maintains real oversight. We have a range of guidance on how to manage your charity's finances – as well as

financial controls, reserves and risk management, we have guidance on managing financial difficulties and insolvency and a popular checklist of 15 questions you should ask at trustees' meetings. We'll be doing more work this year to refresh our guidance in this area and make sure it's accessible and we will welcome the input of charity finance professionals across all parts of the sector.

The range of guidance on our website is extensive – covering investments, charity reporting, and risk management. And our work to tackle fraud continues, issuing alerts to the whole sector whenever we become aware of potential scams, such as mandate fraud.

We are looking for as many ways as possible to get trustees reading, engaging and using our guidance in their day to day roles. Look out for more video, for Q and A sessions on social media, for bite-size learning and articles helping to unpack our guidance, share them with your networks and tell us what you think. Trusteeship involves making difficult decisions and we cannot pretend otherwise – but we do want to make

it as easy as possible to access our guidance, and the information and support that is available.

I understand that for a lot of trustees our guidance may feel very theoretical. But our casework shows the day to day reality of how lack of action or poor understanding can put charities at risk. In the last couple of years we have published far more case reports about our more routine compliance work to show what it looks like when things go wrong. All of our case reports include wider lessons, worth reading for charity staff as well as trustees and maybe sometimes a different prompt for reflection or discussion.

As the regulator there will always be a limit on what we can do ourselves, and how far we can reach. The role of the charity infrastructure and umbrella bodies in disseminating information and advice, sharing resources and promoting and reinforcing good practice is crucial. Products like the Charity Finance Group handbook are a great resource, full of expertise and sound advice, and a wealth of statistics, features and reference material. I am delighted to commend it to trustees, chief executives, finance directors and professionals, and indeed to anyone with an interest in helping charities to be more efficient, effective and accountable.

**Sarah Atkinson**  
Director of Policy and Communications,  
the Charity Commission



“ We are looking for as many ways as possible to get trustees reading, engaging and using our guidance in their day to day roles ”

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# CELEBRATING 10 YEARS OF COMMUNITY INTEREST COMPANIES

*Given the 10th birthday landmark for CICs, Luke Fletcher reflects on the success of the CIC and considers what the future holds.*

Believe it or not, 2015 marked the tenth anniversary of the Community Interest Company ("CIC")! Time has flown by, and yet the CIC has surpassed expectations, with the 10,000th CIC incorporated back in November 2014 – a remarkable achievement. Today, it is surely the fastest growing community enterprise movement in the country.

## A Ground-breaking Innovation

The CIC is the first new legal form of company created in the UK for over 100 years. It was the brainchild of Stephen Lloyd, former Senior Partner of BWB, who sought to design a bespoke legal structure for entrepreneurs who wanted to run a business primarily for a social purpose.

A charity cannot be a CIC and a CIC cannot be a charity. The two are mutually exclusive. And a CIC does not benefit from the vast majority of tax exemptions available to charities, such as Gift Aid or corporation tax relief. But, critically, a CIC does allow a social entrepreneur to remain in control of an enterprise by being a board level director or a majority shareholder. There is no need to give up control to a voluntary board of

trustees, as would be the case if a social entrepreneur set up a charity.

An "asset lock" means that a CICs assets may only applied for the good of the community and not for private gain. There are also limitations on distributions, so only up to 35% of distributable profits are capable of being paid to private shareholders in any year, interest on debt must be at a commercial rate and there is a limit on "performance related" interest on debt of 20%. All of these protections are designed to ensure that the primary focus remains on achieving benefit for the community.

## A Resounding Success

When the CIC Office opened in July 2005, it was predicted that the office would be registering about 200 CICs a year. However, the CIC Regulator notes that it is "currently registering this number each month". CICs now operate across an enormously wide range of sectors and geographies,

showcasing how the model meets a diverse set of needs. Theatres, healthcare providers and even a virtual farm are among some of the varied examples of CICs formed over the past few years.

Interest in the CIC model continues to be generated overseas, in locations near and far, from China and South Korea to neighbouring France. Variants of the CIC model are also currently being introduced in far flung places, from Nova Scotia and British Columbia in Canada to Australia.

## Reshaping the State

A number of public sector spin-outs and so-called "mutuals" have chosen the CIC model in recent years, often with a degree of employee participation in governance. The CIC Annual Report notes that "this is an example of how flexible the model can be, and bodes well for further increasing growth".

**“Theatres, healthcare providers and even a virtual farm are among some of the varied examples of CICs formed over the past few years”**

**“The CIC is the first new legal form of company created in the UK for over 100 years”**

With the growth of public sector spin outs and, most notably, health related CICs, there have been concerns in some quarters about the possibility of commercial interests intruding into public sector delivery. However, whilst each CIC is a private company and will have independent governance, its assets must be used for the benefit of the public and directors should keep the community and its interests at the heart of decision-making. Most spin-outs have shown themselves to be well run and the signs are that we will see more and more services being spun-out of the state into CICs.

If the community is not at the heart of a CICs decision-making, the CIC Regulator has the power to order its dissolution. Thankfully, the CIC Regulator has not yet needed to exercise this power.

## Finding Finance

However, the key cause of dissolutions has been access to finance and funding. As a social enterprise which does not enjoy any tax relief on donations, CICs cannot always depend on grants or donations to raise finance. Nonetheless, 78% of CICs are limited by guarantee and so have no share capital and cannot issue equity. Even CICs limited by shares deter investors due to the dividend cap.

Changes to the CIC Regulations sought to address this in 2014. CICs are no longer subject to a maximum dividend per share cap – this used to

restrict dividend payments to 20% of the paid up value of a share. Also, the 10% cap on "performance-related" interest was raised to 20%.

2014 also saw the introduction of the long awaited social investment tax relief. This is a tax relief designed to support investment in charities and social enterprises, by providing individual investors with a 30% deduction from income tax when investing into social enterprises. The aim of the relief is to level the playing field with more traditional businesses and with charities. We are seeing a lot of interest in the relief and expect that more and more money will be invested using it in future years.

## The Next Decade

All the signs are that the rate of incorporation of CICs will, if anything, speed up...

In particular, CICs limited by shares are on the rise, which indicates that people are becoming more comfortable with the thought of combining community benefit with a return for investors providing risk capital. Given the state of public finances, we are likely to see more and more areas of public service provision being spun from the state and more use of social investment tax relief to attract investment.

By 2025, I imagine the phrase "community interest company" will

be a household expression. I suspect we will all know one or two in our communities – there should be more than a few very large CICs in 10 years' time – and the CIC will be seen as a fundamental part of our society and economy.

**Luke Fletcher**  
Partner, Bates Wells Braithwaite





# A NEW CHARITIES ACT, A NEW DIRECTION IN CHARITY REGULATION

*The new Charities Act marks a significant change in the direction of charity regulation, and charities need to be aware of the changes. Andrew O'Brien provides an overview.*

This year sees the passage of a new Charities Act. In a process that has lasted several years, we now have a much stronger Charity Commission, a new 'statutory backstop' on fundraising and clarity over the use of social investment.

The legislation changes, for the most part, will probably not impact members of the charity finance profession significantly. However, all legislation is a window into the priorities of the government and the shape of things to come. If the last Charities Act was about simplification and eliminating anomalies in charity regulation, this Charities Act is about much tougher regulation of the sector. It also marks the death of the presumption that charity regulation, given charities are generally set up for noble intentions, is about limiting the impact of a few bad apples rather than trying to keep the whole sector in check. Perhaps this was inevitable given changes in other parts of our society, but this legislation has confirmed it.

The Charity Commission has been beefed up in three significant areas. Firstly, and without significant

controversy, there is a new power for the Charity Commission to wind up a charity. Previously only the courts could direct a charity to wind up, but now the Commission will be able to direct trustees to wind up a charity following a statutory inquiry. The power will come with the right of trustees to appeal to the Charity Tribunal, which will ensure that it is accountable, but the Commission's hope is that this will speed up the process of closing 'sham charities'.

More controversial, however, are two other areas of significant change. The Act will enable the Charity Commission to issue 'official warnings' to charities if they believe that there has been a breach of trustees' duties, misconduct or mismanagement. The Commission already issues unofficial warnings, but these new statutory warnings will carry much more significant weight and are likely to be published by the Commission.

CFG and other organisations raised significant concerns about this new power, due to its unaccountable nature. Unlike other powers, there will not be recourse to the relatively low-cost Charity Tribunal. Instead, charities would have to go through the process of judicial review. Not only is this much more expensive, costing tens of thousands of pounds, but as judicial review is based on concerns around process rather than interpretation of the rules, it will be limited in its effectiveness.

The Commission has insisted that this new power will be for 'low level' offences, such as late or misfiling of accounts. Obviously, this is something that charity finance professionals now have to be wary of. However, there is a risk that given its unaccountable nature that it becomes the 'power of choice' where there is a controversial issue at stake. Unlike a statutory inquiry which can be challenged through the Charity Tribunal, an official warning will be much harder to challenge and this may lead charities to go with the Commission's recommendations even if they do not believe that they are correct. One last minute concession was an amendment that saw the Commission have the power to withdraw or alter a warning that has been given which gives some hope for correction. This new power will have to be watched carefully.

The other area where the Charity Commission has seen a significant increase in power is in the disqualification of trustees and senior managers in charities. The Charities Act will create new automatic disqualification criteria which will bar people under the asset-freezing regime and people who have committed sexual offences from being trustees or senior managers in charities. The Act will also enable the Charity Commission to use its discretion to disqualify individuals from being trustees and senior managers.

There are two issues in particular which are particularly concerning with this Act. Firstly, the ability of the Commission to use the wide ranging and controversial HMRC Fit and Proper Persons test. CFG raised several objections about this test, and the lack of definition around designing and promotion of tax avoidance schemes. The pre-legislative scrutiny committee asked for the government to remove it from the Act because of concerns that CFG and others raised, but the government pressed on.

Secondly, a new wide ranging criteria will enable the Commission to disqualify anyone that in the past or currently is deemed "damaging or likely to be damaging to public trust and confidence in charities". This will give the Commission considerable discretion and the media has already reported about the power being used to potentially disqualify 'extremists' – defined by the government. This could have a significant impact on many organisations and charity finance professionals, as a disqualification order from the Charity Commission would prevent them from undertaking any role in a charity that involved control over money.

The government will also be given additional powers to regulate fundraising through the Charity Commission, should the current self-regulatory regime not meet the concerns of Ministers. This new power indicates that the government will be continuing to take an interest

“The Act is not a complete overhaul, but it does mark a significant change in direction”

**Andrew O'Brien**  
Head of Policy and Engagement, CFG



in the future of fundraising regulation and means that the Fundraising Regulator will need to meet the tests set out by government in the future. The Act also states that the new fundraising regulator will cover all charities rather than just being a membership body along the lines of the Fundraising Standards Board.

Although the Act is not a complete overhaul in terms of the role of Charity Commission and regulation of the charity sector, it does mark a significant change in direction. The Charity Commission, as it has made clear publicly, will be focusing more on its core regulatory duties and charities will need to adapt to this. This change is not isolated to the Charity Commission either. Charities have seen a tougher approach taken by HMRC on issues such as Gift Aid, VAT and payroll audits. Finance professionals will need to make sure that they understand the new rules and help their organisations work within a sector which is seeing a tougher regulatory framework.



# UNDERSTANDING PUBLIC PERCEPTIONS OF CHARITY REGULATION

**Public opinion is divided on charging charities for their regulation, according to research commissioned by CFG. Kelly Ventress and Anjelica Finnegan explain.**

In the 2015 joint Spending Review and Autumn Statement, the Chancellor announced that the Charity Commission's budget will be frozen at £20 million per year over the course of this Parliament. This freeze will be a real terms cut to the Commission's budget which has already seen a 48% fall since 2007/08.

Conversations around what charity regulation in England and Wales should look like, and who should pay for it, have therefore gained momentum. One option that has been suggested is that charities themselves should pick up the shortfall. In the Charity Commission's 2015 report *Trust and Confidence in the Charity Commission*, one of the key findings was that 69% of the public believed that charities should at least in part pay for their regulation.

This figure has been interpreted by proponents of charging charities for their regulation as support for their position. However, this finding is at odds with the conventional wisdom – supported by existing research and sector knowledge – that people want as much of their donation to be

spent on charitable activities as possible, rather than on overhead costs.

## The Research

In late 2015, CFG commissioned the Centre for Philanthropy at the University of Kent to undertake a piece of research into public perceptions of charity regulation. The aim of the research was to explore in detail the public's attitude to charity regulation, and who they think should foot the bill for that regulation.

Large scale quantitative studies, such as that used in the *Trust and Confidence in the Charity Commission* report, are useful in providing a general picture, but lack the ability to draw out the complexities and nuances of people's attitudes. This prompted CFG to commission a qualitative piece of work that would enable us to unpick what people thought

about charity regulation and how it is funded.

Dr Eddy Hogg of the University of Kent conducted four focus groups with a representative sample of regular and non-regular donors (including non-donors). Focus groups are a particularly useful method in this kind of study as they enable the researcher to explore how public attitudes are negotiated between people from a range of backgrounds and attitudes as they discuss and learn from one another.

The findings of the research have now been published in the report *What Regulation, Who Pays? Public Opinion and Charity Regulation*.

The findings of the report confirm strong public support for charity regulation, not only to ensure that charities are toeing the line, but also to support them and consequently their beneficiaries and supporters.

**“Conversations around what charity regulation should look like, and who should pay for it, have gained momentum”**

**“public attitudes to charity regulation are complex and there is no one view that can be applied to the public at large”**

## So who should fund the charity regulator?

Who should fund the regulator is far less than clear cut; public attitudes to charity regulation are complex and there is no one view that can be applied to the public at large. Whilst the largest number of people in the focus groups did express support for a mixture of both government and charity funding, a significant number felt that the Commission should be funded wholly through taxation and only a very few felt that charities should be the sole funders.

The report demonstrates that even where participants voiced support for charities making a contribution to the cost of their regulation, this should not be to replace government funding and the benefits of this funding model would need to be transparent and tangible.

The onus is therefore on those in favour of charging charities to make a case for why it would improve the regulator and is not just a response to government funding cuts.

The report also found that the public had a number of concerns about the efficiency of charities, how much they paid senior staff, and 'bogus' charities. The research found that the public saw effective regulation of the charity sector as critical to their confidence in charities achieving their charitable objectives and protecting the public.

## What does CFG believe?

CFG has consistently called for the government to invest in the Charity Commission as a way of ensuring public confidence, and ensuring that the public continues to donate billions of pounds to the charity sector. However, CFG's research also indicates that charities need to change the way that they explain their regulation to the public. Far from being a negative, a sign that donations could be at risk, regulation is seen as a positive by the public that their money will be used for the right purposes.

CFG's Head of Policy, Andrew O'Brien, outlined CFG's position against charging charities for the cost of their regulation in his speech at the report's launch, which can be read at [www.cfg.org.uk/news](http://www.cfg.org.uk/news).

In brief, CFG believes that charging charities for their regulation is a false economy.

Charities raise tens of billions of pounds for public benefit which enables them to support people and communities across the country, underpin other public services, and deliver preventative work which saves public money.

Investing in the Charity Commission, and thereby encouraging public trust

**Kelly Ventress**  
Communications Manager, CFG



and confidence in the sector, is therefore a good use of public money.

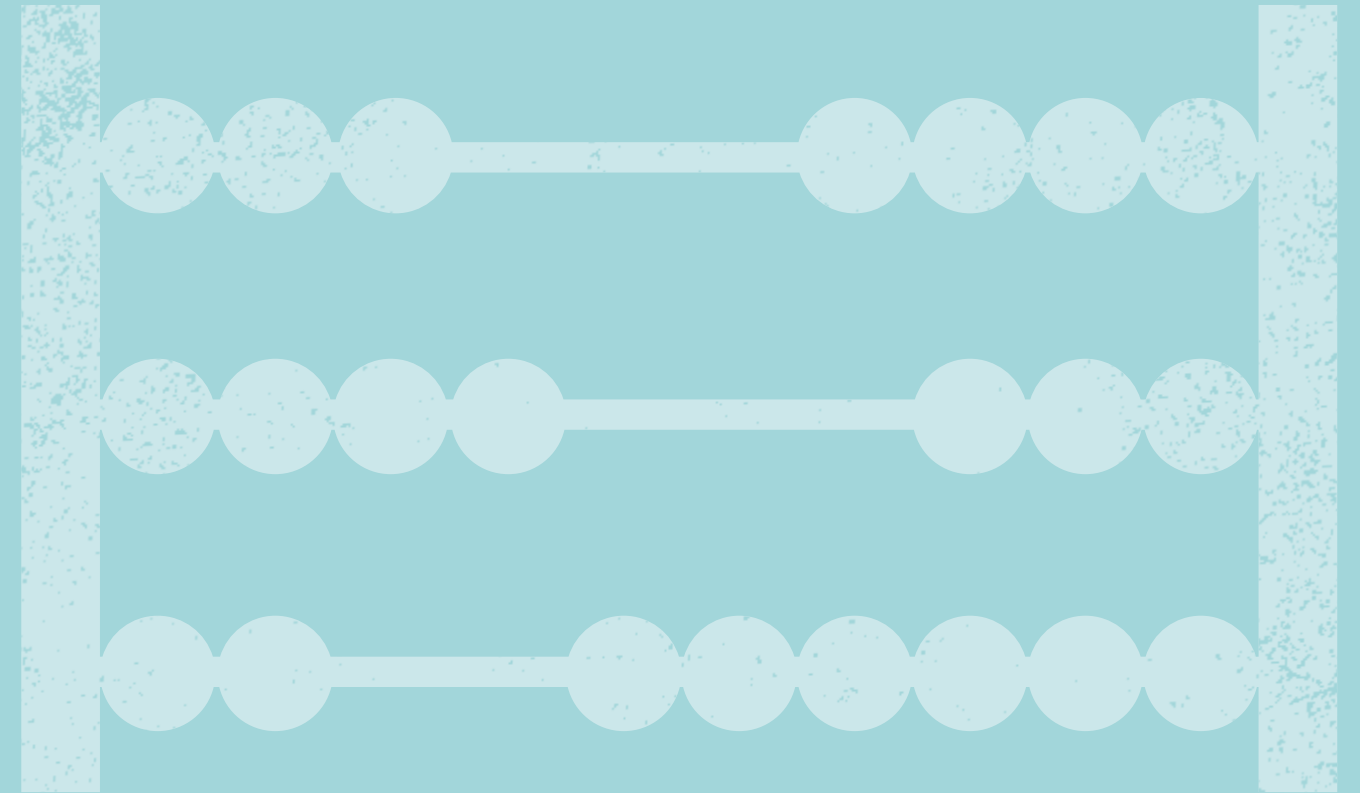
CFG will gladly support the regulator and Ministers to make the case for why investing in the Charity Commission is the right thing to do and has public support.

**Anjelica Finnegan**  
Senior Policy and Public Affairs Officer,  
CFG



“charging charities for their regulation is a false economy”

# 09 PENSIONS



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# CONSIDERING PENSIONS: WHAT CAN WE EXPECT IN 2016?

*What does 2016/17 hold for charity pensions? David Davison dusts off his crystal ball and has a look to the future.*

From a charity pensions perspective, 2015 was something of a disappointment, and the outlook for 2016 at this stage doesn't fill me with optimism, but we'll look for the bright spots.

Investment markets remain volatile and continuing low gilt yields have seen defined benefit scheme deficits remain high and in many cases at increasing levels, despite often significant increases in contributions. An increase in interest rates might have helped reduce the value of liabilities, but we haven't seen this in 2015 and it's difficult to see the position improving dramatically over the short to medium term. This over-arching issue affects stand-alone schemes and multi-employer defined benefit schemes ('MEDBS') in much the same way – and also impacts on retirement values in DC arrangements, where shopping around for the best retirement value has never been more important.

## *Move to a single state pension*

The move to a single state pension should bring simplicity, and hopefully make it much easier for individuals to target the likely pension income they will need in retirement. The change

will, however, mean that from April 2016 employers in contracted out schemes (e.g. LGPS – the Local Government Pension Scheme) will lose their 3.4% of band earnings NI reduction, and employees will lose their 1.4% reduction. So employers need to be budgeting around £20,000 per annum extra for each £1m of pensionable salary.

## *The auto-enrolment roll-out continues...*

...And in 2016 we move to implementing schemes for smaller employers. With an estimated 600,000 employers with fewer than 30 staff staging, there are undoubtedly going to be market capacity issues. Providers will look to be selective and the pressure on NEST as the default option will undoubtedly increase. Charities need to engage with the process as early as possible and ideally at least 6 months in advance of their staging

date, to allow them to come up with the most suitable option for them. Implementation and contribution costs also need to be factored in the budget planning. Helpful guidance from CFG for smaller employers is available in the free guide *Pensions Auto-Enrolment for Small Charities: What you need to know*.

## *Living wage increase*

The Chancellor's recent proposals to increase the living wage will be welcomed by many lower paid employees, however the move could well have unintended implications for charities' benefit arrangements. Increased contributions for pension and risk benefits as well potential increases in liabilities and therefore deficits in DB Schemes.

For charities participating in MEDBS they will have to deal with the above issues as well as a number of others. Most charities have identified the risk that DB pension schemes pose to

them but continue to be hamstrung by ineffective regulation.

## *Triggering Section 75 debt*

In private sector MEDBS's, the Section 75 legislation requires that should an employer cease to have active members in the scheme while others are continuing to accrue, then they automatically trigger a S75 debt. Clearly there is a risk of this happening inadvertently! The debt calculated would be much higher than that calculated on an accounting or funding basis, which leaves charities with an unpalatable choice – trigger a debt they can't afford or keep funding for more liabilities which they are unlikely to be able to afford in the future.

Early in 2015 the DWP issued a call for evidence to look and consider options, however reporting back was delayed as the likely timetable straddled a general election and an ultimately change of government.

## *Concerns with the LGPS*

For many charities participating in LGPS, the issues have been brought dramatically to a head following 2013 and 2014 actuarial valuations. Many LGPS have chosen to highlight employers where they believe there is a substantial risk of triggering a cessation debt, namely those with a small number of members or with staff who are very close to retiring. Some funds have chosen to move these employers to a low risk 'gilt

**“ Charity trustees need to understand their options and look to develop a pension strategy ”**

basis' which for some has resulted in very significant contribution increases, with some 4-5 times their previous level.

So for employers who had been effectively managing their participation these dramatically increased contributions have changed their outlook and pressured their finances. Funds unfortunately have provided participants with little flexibility and by taking a decision to pull forward higher contributions have effectively created contribution, accounting and solvency issues for many charities.

Thankfully there is some recognition of the issues faced as the DCLG called for evidence early in 2015 and a recent report published by PwC (*Deficit Management in the LGPS*) has raised hopes that there could finally be some light at the end of the tunnel.

The PwC report was commissioned by the Shadow Scheme Advisory Board ("SSAB") as part of its deficit management project, which kicked off in summer 2014. Some key recommendations which will be of specific interest for admitted bodies are more flexibility on when exit debts are triggered, establishing a maximum level of prudence when calculating exit payments, more flexible exit arrangements, and the

potential for employer exit on weaker terms.

These items certainly reflect much of the commentary supplied by charity representative bodies, charity advisers and charities themselves. The paper hadn't addressed the issues many charities face from transition of prior local government liabilities but a number of funds look to be addressing this issue directly which is encouraging.

There also seem to be proposals pending which would greatly simplify the pension aspects of out-sourcing arrangements and the sooner we can get these issued the better.

## *Managing with the new FRS102 SORP*

As if all this wasn't enough, most charities in MEDBS's will also have to deal with the introduction of the new accounting standard, the Statement of Recommended Practice (SORP) FRS102. Many LGPS employers already comply with FRS17, however most employers in private sector MEDBS's will have utilised an exemption which allowed them to disclose as if the scheme was a defined contribution arrangement and only note contributions.

For many charities in MEDBS's this has meant that they haven't needed

**“ The move to a single state pension should bring simplicity ”**



to incorporate deficits directly in their balance sheets. This will now change as employers will either have to disclose under FRS102 or place the net present value of their deficit contributions on the balance sheet. This will make pension deficits much more visible on charity accounts, potentially impact on fundraising and even in some cases require charities to manage negative balance sheets. Early engagement with this issue is essential.

One positive on the horizon is that the new freedoms and flexibilities available in pensions is likely to encourage some staff to transfer out of these DB schemes in to a DC environment which could improve the funding position of the schemes they leave behind. At this stage early in the new legislation it is difficult to quantify the likely impact.

### *The big issues in pensions in 2016*

Undoubtedly the big issue on the horizon for 2016 is the future tax treatment of pensions. The 2015 Autumn Statement confirmed that the Government's response to the recent consultation will be published

in the 2016 Budget. Given the continued polarisation of views on the matter, and the impact that the changes could have, it is perhaps not surprising that the Government has paused, albeit briefly, for further reflection.

Retaining the status quo of marginal rate tax relief up front with tax paid on (most) retirement income has the appeal of consistency and keeping higher earners "interested" in pensions. It does though have the problem that it is not well understood or appreciated by lots of those who benefit from it.

The "middle way" of flat rate tax relief (perhaps 25-30%) has many supporters as it would give greater consistency with the current system while having the appeal of redistributing more of the relief to lower earners.

Supporters of a more radical approach such as a switch to a Taxed Exempt Exempt (TEE) system, where contributions are taxed but returns and later income are not (similar to ISAs), have been growing in confidence of late. They believe that upfront tax relief is "wasted" and that a merging of pensions and ISAs

into a single savings framework is the way to go. The significantly increased short term tax take to the exchequer must make this an option which George Osborne may find difficult to resist.

So 2016 looks like another year where charities will need to deal with and implement significant change. Charity trustees need to understand their options and look to develop a pension strategy which specifically takes into account the objectives and constraints they are faced with.

**David Davison**

*Director, Spence and Partners*



“2016 looks like another year where charities will need to deal with and implement significant change”

## SECTION 75 UPDATE – IS REFORM IN SIGHT?

### *Anjelica Finnegan provides an update on what is (or isn't) happening with regard to Section 75 employer debt – a major challenge for charities.*

Back in the summer of 2015 the Department for Work and Pensions (DWP) launched a call for evidence into Section 75 employer debt in non-associated multi-employer pensions schemes, to which CFG responded. It would be fantastic to be able to use this article to present and analyse the DWP's response, but their report is yet to be published.

However, it is important that the charity and pensions sectors continue to discuss S75 and present the case for its reform. This article therefore outlines the continued challenges posed by S75, presents the solutions to these challenges, and addresses the perceived barriers to reform.

### *Recap of Section 75 Rules*

This article assumes some prior knowledge of S75, but as a way of introduction for those readers less well-versed in the issue: a non-associated multi-employer defined benefit scheme is a pension scheme that has more than one employer that are not connected – i.e. are not owned in common or under

common control – where employees are promised a specific monthly payment on retirement.

The S75 employer debt regime was introduced to protect scheme members from the risk of the scheme failing to meet its liabilities. In the situation where an employer becomes insolvent, or the scheme itself is closed, the employer(s) are required to pay off their share of any shortfall in their total accrued liabilities to the scheme at the full buy-out price: the cost of buying annuities to cover all of that employer's accrued liabilities in the scheme.

In a multi-employer scheme, this liability is also triggered if an employer ceases to employ active members in the scheme – that is, if the employer no longer employs anyone who is in pensionable service under the scheme. Employers are required to pay off that debt immediately.

This requirement to pay the difference between the scheme's relevant assets and their proportion of the liabilities at full buy-out price, if an employer stops employing active members, is overly onerous for employers seeking to rationalise their pension costs.

This leaves employers of all kinds (including charities) in the unenviable position of either accruing debt that they cannot afford, or triggering immediate payment of cessation debt, which is also unaffordable.

### *What reform is needed?*

CFG put forward two recommendations in our response to the DWP call for evidence. First, the government should encourage greater flexibility around repayments; both in terms of granting additional time for the repayment of S75 debts, and preventing triggering cessation debts at artificial points in the future. This will allow charities to pay down both the S75 debt and the technical provisions.

This would benefit both employers and scheme members as the likelihood of insolvency and orphan debts would be significantly reduced. This would be no different to the current state of many stand-alone schemes, which operates on the understanding that a strong employer provides security for members.

Second, the government should amend the provisions so that ceasing to employ active members does not immediately trigger employer debt. This proposal is essential to any proposed reform of S75 debt rules.

Echoing these recommendations, in their 2015 *Deficit Management in the LGPS* report, PwC called for greater flexibility in exit arrangements, to prevent employers automatically triggering cessation debt by the exit of the last member, and allowing cessation debt to be paid over a longer period of time.

The best way to create a sustainable pensions system and ensure that scheme members get their pension provision that they have been promised is through financially strong employers. The current S75 rules create instability and prevent charities, and all employers, from putting in place plans with scheme trustees to meet their liabilities in a managed way.

### *What is stumping the DWP?*

Towards the end of last year a DWP official told delegates of a Pensions and Lifetime Savings Association (PLSA) event that the DWP perceives some risk in changing existing arrangements.

The DWP is concerned that by reforming S75 to stop the automatic triggering of debts with the loss of the last active employee, the relationship between the employer and the fund would become too far removed and would enable employers to walk away from their liabilities.

However, this is not an insurmountable issue. Rather than eroding the scheme-employer relationship this measure would cultivate a high level of control for trustees and ensure a balanced

negotiation between scheme trustees and employers.

Ultimately, employers would still be liable to the scheme and the scheme trustees would continue to retain the ability to impose S75 debt up to the point where a final cessation payment is made. Moreover, there is long experience of this in stand-alone schemes, where inactive employers have not ignored their responsibilities to schemes.

Leaving the rules as they currently stand it is possible to conceive of a situation where once an employer has reached a point where they are unlikely to meet their future liabilities there will be no interest for them to be constructive members of the scheme or to meet their repayment obligations.

### *It is becoming ever more urgent to reform S75*

S75 employer debt has already led to numerous charity closures, including People Can and the Spirit of Enniskillen Trust in 2012 and 2013 respectively. The closure of these charities resulted in loss of hundreds of jobs and has put more pressure on the remaining employers in the scheme.

In the first two months of 2016 alone, CFG has spoken with two charities that will be forced to close within the year as a result of S75 employer debt. As employers fail, with rising pension costs often a factor in these failures, the burden on the remaining scheme members increases.

Reform to S75, by helping employers to prevent the accrual of excessive pension liabilities, could help to reduce the amount of orphan debt and make the overall non-associated multi-employer defined benefit pension system much stronger.

#### **Anjelica Finnegan**

Senior Policy and Public Affairs Officer, CFG



“Section 75 employer debt has already led to numerous charity closures”

## TOP TIPS FOR AUTO-ENROLLING IN A WORKPLACE PENSION SCHEME

### *Is your charity due to auto-enrol in a workplace pension in 2016? If so, CFG have drawn on the experiences of other charities to put together four things you need to start thinking about now.*

Charities with fewer than 25 members of staff employ nearly half of the 821,000 workers in the voluntary sector. Throughout 2016, a large number of these organisations will have to comply with auto-enrolment regulations.

CFG have recently published a free guide to auto-enrolment for small charities (which can be downloaded from the CFG website). Here are some of the key points for organisations who will be auto-enrolling in 2016 to consider:

#### *1. Plan early*

Drawing from the experiences of charities that have already auto-enrolled, it is clear that it is important to start thinking about auto-enrolment now. You must be ready for auto-enrolment by your staging date, so ensure you do sufficient research beforehand. Charities' experiences so far have shown that preparing for auto-enrolment is more difficult than the on-going management of an established auto-enrolment scheme.

Most pension experts recommend allowing for a six month project plan to get things right. This should be sufficient time to overcome any issues that are subsequently identified.

#### *2. Factor in costs*

You need to set aside a budget for setting up a compliant pension scheme, changing payroll arrangements, administration and so on.

If you decide to manage the process without any external support, costs can start from £750. If you want guidance through the process it can cost upwards of £1,500. You will need to check with your payroll provider whether there will be any additional costs.

The total initial contribution rates are currently 2%, of which the employer

must pay a minimum of 1%. In October 2017 this will gradually increase to 5% (of which the employer must pay 2%), and this will increase again in October 2018 to 8% (of which the employer must pay 3%). Thereafter, there has been no official directive in terms of future increases. However, industry experts expect the level of auto-enrolment contributions to increase after 2018.

#### *3. Don't assume your current pension scheme will be compliant*

Your existing pension provider may be able to assist by extending pension provision to auto-enrolled staff. However, if they cannot do this, or you need a pension scheme for the first time, then some of

“it is important to start thinking about auto-enrolment now”

the auto-enrolment providers such as The People's Pension ([www.thepeoplespension.co.uk](http://www.thepeoplespension.co.uk)) or the tax payer-backed NEST ([www.nestpensions.org.uk](http://www.nestpensions.org.uk)) will be able to help.

#### 4. Anticipate low opt-out rates

As an employer you cannot encourage your employees to opt-out of the scheme. However, if an employee wishes to opt-out, they can do so by contacting the pension provider. The experiences of other

charities that have already auto-enrolled indicate that opt-out rates are low, and you should plan accordingly.

CFG's guide, *Auto Enrolment for Small Charities: All You Need to Know* is available to download free from [www.cfg.org.uk/resources/Publications/cfg-publications](http://www.cfg.org.uk/resources/Publications/cfg-publications).

**Anjelica Finnegan**  
Senior Policy and Public Affairs  
Officer, CFG



“The experiences of other charities that have already auto-enrolled indicate that opt-out rates are low, and you should plan accordingly”

CFG's **London and South East members' meeting** on 14 July 2016 will focus on pensions – visit [www.cfg.org.uk/events](http://www.cfg.org.uk/events) for details.

## AUTO-ENROLMENT CASE STUDY

*Steve Notman shares what Samaritans learned from implementing auto-enrolment.*

Samaritans' central office in Ewell, Surrey, is the administrative centre for 201 Samaritans branches around the UK and Ireland, and a separate charitable company in its own right. We implemented auto-enrolment (AE) in 2014.

#### How we planned

At our staging date for AE of May 2014, we employed 115 paid staff of whom 52 were not already a member of one of our existing pension schemes and were eligible to be automatically enrolled into a workplace pension.

One of the first things we did and, with hindsight, one of the best decisions that we made, was to choose a manager to lead the work who had some pensions experience, as well as the necessary time and skills to devote to it. After applying some simple project management practices, she designed a schedule of activities and timings based on a pro forma provided by our pensions company.

A definite benefit of implementing AE a few years on from its original launch is that there is now a great deal of helpful information and knowledgeable people out there. We ensured that we tapped into both – The Pensions Regulator website is a valuable resource (for example, great for communication pro formas and

“We looked at a number of potential providers, taking into account factors such as cost, ease of administration and experience”

case studies of other charity implementations). The CFG auto-enrolment “how to” guide also proved particularly helpful, and we made contact with a number of other charities who had already been through implementation to learn from their experiences.

We decided to use the opportunity to reconsider our pensions offering for to-be-enrolled staff, rather than simply defaulting to our existing scheme. We looked at a number of potential providers, taking into account factors such as cost, ease of administration and AE experience. In the end, we went with a new provider. We were impressed with their AE offering; how they planned to handle the process, engage with employees, and generally support us throughout as an implementing employer.

#### Putting it into practice

We engaged with the bureau that we use to process our payroll at an early stage of the project, firstly working closely with them to ensure that employee records were complete and clean and then helping to ensure their payroll system could produce a file in a format that would

be readable by the pension company software. If only all computers spoke the same language!

For us, the task of assessing the workforce was pretty straightforward as we had no employees who were being paid below minimum thresholds or who were receiving overtime pay or bonuses, and we had just one employee who fell outside of the standard eligible age range. We used our pension provider software to carry out the workforce assessment for us.

In terms of communicating with employees, we started with a general briefing at a staff meeting and followed up with posters, open-door surgeries and targeted emails.

Before going live, we did a test run using a member of staff. This was great as it allowed us to check the process and look at things from the employee perspective.

As our staging date was right in the middle of our year end/annual audit process, we decided to postpone for three months. Exercising this option was useful and allowed us to make absolutely sure we were ready to go



“It was vital that we ran the project as efficiently as possible”

when we did. Although it worked for us, I advise other charities not to jump to postponement too hastily as it's useful to have as a fall back if you need it as you near your staging date.

### Passing on learning

It was vital that we ran the project as efficiently as possible. We committed to delivering the process using in-house resources, which was incredibly successful, and ensured that we did not incur consultancy costs.

By tapping into the free stuff, using The Pensions Regulator's website, pro formas and helpdesk, and working closely with our payroll provider and pensions company (who did a lot of the heavy lifting for us), we kept the admin cost down and (I think) reduced the risk.

The process around implementing automatic enrolment at Samaritans has been surprisingly speedy and straight forward. My advice to similar sized, or smaller, charities would be:

- Get going as soon as you can;
- Don't put things off;
- Don't underestimate what you need to do;
- Prepare a realistic cost budget at the start;
- Get the best person for the job to run the project;
- Use your advisers, peers and, if necessary, others, who can support you through the process.

*This article originally appeared in Finance Focus magazine in April 2015.*

**Steve Notman**  
Head of Finance, Samaritans



# 10

## HR AND RECRUITMENT



### IN THIS SECTION

Looking back on charity finance recruitment in 2015  
*Jamie Reynolds, TPP*

Avoiding common recruitment errors  
*Rob Hayter, TPP*

Managing staff during a restructure  
*Helen Giles, St Mungo's Broadway*

Developing future finance leaders  
*Dame Mary Marsh*

# LOOKING BACK ON CHARITY FINANCE RECRUITMENT IN 2015

## *Jamie Reynolds looks back at the changing mood in charity recruitment in 2015.*

TPP Recruitment have 12 consultants exclusively devoted to recruiting for the various functions that Finance Directors typically cover, which has given us a unique perspective on changes in the charity recruitment market over the last 12 months.

### *Cause for optimism in the market?*

There is a cautious mood of optimism in the market as the economic recovery continues and not-for-profit organisations are beginning to feel more confident in their funding sources. Since 2009, finance departments have been very circumspect about expanding, relying instead on contract staff to cover any shortfalls. However, that trend has now begun to change and there are consistently more junior – to mid-level vacancies across finance, HR, facilities, IT and governance.

Director level roles are still relatively thin on the ground, but we expect that to improve. The need to weather the expected short-term drop in fundraising income that is expected with the introduction of the new fundraising regulator, plus the effect of bad press on the charity sector, means that it is more important than ever for charities to have the right Finance Director in place.

There is also increased confidence among employees in the market, and they are more likely to consider moving roles, leading to an improvement in the quality of candidates. However, because these candidates are not necessarily active jobseekers, they need to be approached through networks and headhunting instead. An increasing willingness to move roles may also lead to problems in staff retention for employers.

### *What are employers looking for?*

TPP recently ran a salary survey among finance professionals, in which 49% of respondents reported an increase in salaries over the past year. Salaries at Director level have increased by 6%, compared with salaries from the CFG People and Pay Survey 2013, however the biggest increases were for junior and mid-level roles.

We are seeing an increase in business partnering roles in larger charities, where the focus is not just on accounts and budgets but also on commercial activities, contracts and VAT implications. These positions, along with fully-qualified financial/management accountants have seen modest growth in salaries and packages.

Knowledge of the latest SORP also remains high on the agenda, and from a technical perspective the market seems to be moving towards cloud and web-based accounting

packages. Charities are increasingly looking for finance professionals with an understanding of tenders and contracts and who are more forward-thinking and analytical. International experience is also becoming more requested, as organisations broaden their focus.

A corporate background continues to be in demand for senior roles, as charities seek to learn from the professionalism of the private sector. However, a charity background is still preferred for the junior to mid-level roles. In our salary survey, 36% of respondents came from a private sector background and 8% from the public sector, making finance one of the easiest areas to enter from the commercial world.

### *How can employers attract the best finance professionals?*

Finance is continuing to be increasingly linked to other departments, such as fundraising, which is leading to a demand for senior staff, who have knowledge of working with other teams. And of course, senior finance staff are continuing to cover many different responsibilities, including facilities, IT, HR and legal.

There has been a drop in the number of active jobseekers since the peak unemployment of 2011, as more and more candidates have found employment. This means that simply advertising roles on job

“Charities are increasingly looking for finance professionals with an understanding of tenders and contracts”

boards no longer brings in the required response and employers are increasingly having to rely on networks of contacts and headhunting to fill roles.

When finance professionals are considering moving roles, they are more interested in the total package being offered than just the salary. Pension contributions, flexible working and medical insurance are some of the most sought-after benefits, and are increasingly becoming a key factor in whether a candidate chooses to accept an offer. Employers increasingly need to look at the total package they are offering candidates prior to starting recruitment, rather than waiting for interviewees to ask.

Finance is a career that lends itself well to part-time working, and there are lots of part-time roles, particularly in smaller organisations. This makes it attractive to those candidates

seeking an improved work-life balance. Additionally, qualifications are now a requirement to build a career within finance, and QBE is no longer enough. This means that study support is increasingly sought after, as an incentive for part-qualified professionals to move into the sector.

We've found that some finance departments are lagging behind other teams in their interviewing skills and ability to assess emotional intelligence and cultural fit. They may also be missing out on the opportunity to really sell their organisation at the interview stage, which is becoming much more important now candidates may have several opportunities to choose from.

Overall, the finance department's profile is rising within the charity sector, which will hopefully lead to improved career options for finance professionals.

**Jamie Reynolds**  
Senior Consultant, TPP



# AVOIDING COMMON RECRUITMENT ERRORS

## Rob Hayter provides tips on how to recruit staff effectively and within the law.

Recruiting a new member of staff is expensive and time-consuming, so it can be tempting to cut corners. However, this rarely pays off in the long run. Heeding some of the most common errors will make sure you find the best person for the job.

### Not asking the right questions

Preparing interview questions in advance makes it easier to assess how candidates will do in the role, helps avoid bias and establishes a level playing field for multiple interviewees.

### Not checking references

Not checking references leaves you entirely reliant on the candidate's view of themselves, which can be accidentally or deliberately distorted.

### Recycling job descriptions

Roles change over time and the job description might be out of date, meaning that you're hiring against stale criteria. Vague and imprecise job descriptions also make shortlisting difficult, as you'll get many more unsuitable applicants.

### Waiting for the perfect candidate

Organisations often assume there must be a jobseeker out there who matches every requirement on their list. In reality, perfect candidates are so rare that it is usually best to go for

DON'T ASK	DO ASK
What country are you from?	Are you eligible to work in the UK?
Which religious holidays do you observe?	Can you work on the days required for this role?
Do you have or plan to have children?	Are you available to work overtime on occasion? Can you travel?
If you went on maternity leave, would you return to work?	What are your long-term career goals?
How do you feel about managing men/women?	Tell me about your experience of managing staff.
When do you plan to retire?	What are your long-term career goals?
How far would your commute be?	Can you start work at 9am?
How many sick days did you take last year?	How many unscheduled days of work did you miss last year?

someone who meets all your key requirements and can be trained in the "nice-to-haves".

### Asking "illegal" interview questions

While some interview questions are obviously discriminatory and easy to avoid, it's possible for employers to think they're innocently making conversation, but they may be straying into potentially illegal areas, and making themselves open to litigation.

*This article originally appeared in Finance Focus magazine in February 2015.*

CFG's **Risk and Fraud Conference** is running in December 2016 and will include a session on avoiding recruitment risks. Visit [www.cfg.org.uk/events](http://www.cfg.org.uk/events) for more information.

Rob Hayter  
Director, TPP



# MANAGING STAFF DURING A RESTRUCTURE

Restructuring and other kinds of unsettling change are a constant for charities these days. However, this does not make it any the easier when a manager has to present changes which might affect future job stability to their staff.

Often managers are anxious that they will be surrounded for weeks – if not months – by unhappy teams feeling very demotivated and not giving their best. There are a number of things that senior and line managers can do to optimise people's perceptions and motivation during a difficult period.

Visible and inspiring leadership is crucial throughout the process. It is very important that senior management presents clear messages about the reasons for the change and what is going to be better, particularly for the charity's beneficiaries, as a result. It is important to give people as much clarity as possible upfront regarding the timetable for the change, the range of possible outcomes for groups and individuals, and what opportunities they will have to give their views, either collectively or individually.

The senior team has a responsibility to work jointly to plan and implement two-way communications with as much care as all other aspects of the restructuring. Joint meetings with middle managers should be made as early as possible to get their involvement in, and ownership of, proposed changes that will affect their teams.

Senior managers should commit to getting out and about among affected staff, for example by attending their team meetings to discuss proposals and to listen to views. A very useful thing to do is to set up a 'frequently asked questions' page on your intranet, in which you capture all the questions and representations made by staff and respond to them.

The value of ongoing two-way communication cannot be over-estimated. Where there are delays and nothing is happening, it is vital to explain to people why there are delays and when they can expect to hear something; otherwise their imaginations will run riot and into that vacuum will creep unhealthy speculation.

## Responses to change

As a line manager, you need to take proactive responsibility for finding out what your team members are saying they want to know. You need

to have an open door to listen to and address people's questions and anxieties. Individuals react to change in a whole variety of ways depending on their own personal circumstances, so you need to understand people as individuals and manage their individual responses.

Some people will be natural champions of change and it is good to harness their positivity and energy to persuade others of the benefits. Conversely, there will always be a small proportion of people who are so opposed to the change that they will never be brought around. It is useless to spend a lot of your time persuading them, when you should be working with the vast majority who will accept the change eventually if they perceive that the process has been handled well.

If it is at all possible to offer a financial enhancement for people to accept 'voluntary redundancy' rather than put themselves through the redeployment selection process,

“Visible and inspiring leadership is crucial throughout the process”



this is a good way of bolstering individual choice and dignity. But, above all, it is important to treat people with honesty, openness and decency throughout. Failure to do so will diminish the commitment to your organisation of those who stay. Allow all those who are staying to have some input into planning for the future of the new entity and make

sure those who leave you have a good send-off. If you have managed the change properly, you should feel no shame or hesitation in attending a redundant employee's 'leaving do' and wishing them well.

*This article originally appeared in Finance Focus magazine in March 2014.*

**Helen Giles**

*Executive Director of HR, St Mungo's Broadway*



“Above all, it is important to treat people with honesty, openness and decency throughout”

## DEVELOPING FUTURE FINANCE LEADERS

***Each Finance Director or manager as a leader has to find and understand their own strengths and potential, and then consider how to develop leadership capability in their own teams. Dame Mary Marsh explains.***

Everyone should recognise how we can learn about leadership throughout our life journeys in all settings – at home, in the community, and in every working context, be it paid or as a volunteer. Charities and social enterprises have been slow to realise how important this is for everyone.

In 2013, I led a review of skills and leadership for the Cabinet Office, and there is much in it that is worth looking back on, as it is still very relevant to CFG members in developing both their own capability and that of their staff teams.

There were two key overarching principles in the review which apply to everyone who is line-managing others. First, each of us is responsible for our own development, and should actively encourage others to do this, leading by example by building upon self-reflection and actively learning every day. Secondly, all line managers are first and foremost coaches of their direct reports, enabling them to build their long-

term capability as well as have a clear focus on the delivery of immediate outcomes.

Of course, employers and others can help support this by providing development opportunities and prioritising coaching skills for line managers. But there is much that everyone can do for themselves through peer support, online resources, finding mentors and being a mentor for others.

### ***Reflecting on yourself***

How well do you know yourself? This is the starting point for all the aspiring leaders who are appointed as Clore Social Fellows, and applies to everyone wanting to lead by example and grow leadership potential in others. Do you get regular feedback from your reports, your peers and your line manager? If not, maybe you should ask for it. Such self-awareness is really important if you are fully to recognise your strengths, potential and how you engage with others.

You may be fortunate and have had some access to coaching, and your own line manager may be enabling and provide good and regular feedback. However, do you stop and reflect regularly about your interactions with others? Are you clear about your own values (which are hopefully congruent with your organisation), and what behaviours are needed to live them properly? If so, do you consciously do this? Do you enable others in your approach?

A second question to ask is: how good are you at being yourself? I mean by this, being self-confident, but with some humility too. How good are you at building strong relationships with colleagues? Jonathan Taylor, a 2011 Clore Social Fellow, explored this in his research report Beyond Eeyore ([www.cloresocialleadership.org.uk/jonathan-taylor](http://www.cloresocialleadership.org.uk/jonathan-taylor)), which emphasises the importance of communication skills for finance directors.

Finally, do you look after yourself? This is the critical part of leadership that many overlook: without physical and emotional resilience, you are likely to find the challenges and demands you face really difficult, if not impossible at times.

Now you need to use this same approach with members of the finance team, providing yourself as a role model and encouraging them to know themselves too. If you share some of this reflection through the year, the year-end performance review will flow and there should be no surprises.

### ***Situation-sensing***

The leadership framework for Clore Social Fellows emphasises the importance of understanding the context you are in, both immediately around you and the bigger picture. What is going on now and what is emerging ahead? While effective leadership in finance is firmly based on sound numbers and robust risk assessment, it is important to look

# “ Too often, finance managers are not encouraged to get out and meet others ”

beyond this to the purpose and work of the whole organisation and its wider context. Increasingly, an understanding of tracking and demonstrating outcomes and impact is vital. How much have you been able to engage with this yourself?

Your finance team can also play an active part in this if they are encouraged to engage with the context. They need opportunities to experience first-hand what others are doing, in order to get a wider understanding and to contribute to any consideration of outcomes and impact, as well as to strategy and to planning for the future. Everyone can also benefit from awareness beyond their own organisation, and in particular from engaging with others carrying out similar work in the wider sector.

## Working with others

Too often, finance managers are not encouraged to get out and meet others. However, so much of what we do in the social sector and elsewhere requires different skills and understanding beyond a focus on direct delivery. We need to work with people we do not formally manage, especially as the capacity to influence, negotiate and work in partnership becomes ever more important. Learning these capabilities is another dimension of leadership.

How much have you had the opportunity to develop yourself with others? In developing the potential of your finance team, it is important they are exposed to this too. A good

starting point can be in contributing to cross-functional teams and projects. Like much of leadership, you learn a great deal by engaging through doing and then reflecting on it, so another challenge for line managers is to ensure staff get these opportunities.

## Doing it ourselves

By applying just a few of these points, leadership capability across the finance team will be strengthened. But it starts with all of us individually doing this for ourselves, whatever our current role. None of this is easy but it can be hugely rewarding. I hope you can find the courage, support and space to do it.

## Do you know yourself?

The following are some questions to help you reflect on knowing yourself:

- Has anyone been an effective mentor and/or line manager for you? If so, why and how?
- Have you had a line manager who has not helped get the best out of you? If so, what could they have done differently?
- Have you had a coach? If you have not, try to prioritise this, and follow up with a 'coaching for line managers' course to give you the skills to do this yourself.

*This article originally appeared in Finance Focus magazine in March 2014.*

**Dame Mary Marsh**  
Founding Director, Clore Social Leadership Programme



*Keen to develop your leadership skills? The **Inspiring Financial Leadership** programme will be running again from Autumn 2016. Find out more at [www.cfg.org.uk/ifi](http://www.cfg.org.uk/ifi).*

# 11

## IT AND DATA INSIGHT



### IN THIS SECTION

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Nevil Durrant, Eduserv

**How to select CRM software**  
Ivan Wainwright, IT for Charities

**Cyber-security for charities: technology is not the answer**  
Rowenna Fielding, Alzheimer's Society

**Why us?! Why would charities fall victim to cybercrime?**  
Sandra Peaston, CIFAS

# DIGITAL TRANSFORMATION AND HOW FINANCE CAN HELP MAKE IT HAPPEN

## **How can charities – especially those working in charity finance – embrace digital transformation in 2016? Nevil Durrant explains.**

The hype over the last few years about new digital technology comes with some justification. Digital, if done properly, has the power to not only boost important areas like fundraising but to also streamline operations and create new efficiencies in incredibly powerful ways.

We've seen how many other sectors have done it and been so successful, notably the public sector with the award winning Gov.uk initiative. The government's digital team is helping to transform the way many departments operate – not just by moving services online, but also by changing the way they work internally to be much more focused on responding to rapidly changing citizen needs. Charities have the opportunity to do much the same.

### **How – and why – embrace digital?**

By getting on board with digital technology, charities can much better meet the changing expectations of employees, supporters and users. From a finance perspective – I would argue that they also have to. And it's not just about boosting online donations or getting more views on YouTube.

Right now, many charities are facing increasing competition from the private sector and new entrants who offer similar services. Others are working increasingly closely with health service providers, local authorities and a range of other funders or service partners. To my mind, a shift to digital working is the only real way that charities can compete credibly in this rapidly changing environment. Indeed, if they don't adapt fast enough, they will face the very real prospect of losing contracts or not having them renewed.

### **How, as a finance director, can you help facilitate and enable the change required?**

The task is no doubt a big one, and it's complicated further by the fact that digital capabilities are developing and changing so rapidly. "It's like riding a wave", as one charity put it to me recently. However, that said, the feedback from the charities I've spoken to recently is that you can make a start and build solid foundations by making a few fundamental changes:

#### **Firstly, play your part in creating the environment for digital change**

Many charities (certainly the larger ones) have already had a Head of Digital and a growing digital team for a few years now, but the task

doesn't end there. For true transformation to take place, digital can't sit alone in yet another departmental silo. Digital thinking needs to be all pervasive. In fact, what charities now need is a complete culture change whereby the whole organisation thinks 'digital first'. Finance directors (FDs) can play their part by making sure that every process, service and investment is scrutinised against the overarching question – "could we do this better and more efficiently if we did it digitally?"

### **Be fast to adapt to new agile ways of working**

One of the most common current bug bears I picked up from FDs about digital technology at this year's CFG IT conference is the challenge of adapting to the 'agile' development methodology that characterise digital teams and the way they work. In fact agile is in danger of becoming a maligned buzzword in financial circles. That's a shame, because agile can be very effective at getting cross-functional teams to focus on real user needs and being more responsive to the fast pace of change in today's digital world. The problem FDs face is that it can be very difficult to budget for.

There is no easy answer to this, but the best advice is to keep your objectives clear and consistent. By nature, agile is all about evolution and collaboration and keeping processes fluid. That's fine, but if you

don't keep your ultimate objectives consistent and you let them evolve and change in the same way the development process does, it can be a recipe for financial disaster and a complete loss of control over spends.

### **Consider testing your website**

If you're making a significant investment in digital, make sure your website stands up to the test of increased traffic and quality requirements such as accessibility. With digital channels representing an increasing investment for organisations, I always recommend that charities undertake a website health check to ensure their website performs as well as it looks to enable you to provide great customer experience and avoid costly mistakes.

### **Keep lines of communication open and constructive**

As I've already mentioned, the vast majority of larger charities (and indeed many smaller ones) have now invested in a Head of Digital. It's vital that FDs keep a clear line of communication open with this role, which is often evolving and changing as charities get used to the idea. Most importantly, you need to work with your Head of Digital to understand what's realistic, what isn't and how you can keep the overall mission clear and simple to understand. For many charities, this

**“Digital thinking needs to be all pervasive”**

latter point is becoming so important to the viability of their digital transformation efforts that they're seeking to appoint additional Digital Transformation Managers or Champions to articulate and communicate the mission. This is a good idea, because it will help the Head of Digital stay focused on the day to day task of delivery and strategy development. And it gives you, the Finance Director, someone to lean on and translate the purpose of digital projects into simple business objectives.

### **Conclusions**

Overall, the key theme we're hearing most often when we speak to charity leaders at the moment is that while digital may ultimately be enabled by technology, their biggest challenges are all to do with people and relationships. The perception is that getting the technology right is the easy part.

This makes complete sense. After all, transformation in any sector is not just about getting new tools or technologies that simply enhance or support the way it's always been done. Real transformation is about creating an environment for new types of innovation and creativity. It requires a whole scale change to operating model and infrastructure; touching not only sales and marketing, but also every business function from purchasing to HR and, yes, procurement and finance.

To explore this issue further, we'll be publishing a report in 2016 based on a survey of FDs that we carried out at this year's CFG IT conference. If you want to make sure you receive a copy, please email me at [nevil.durrant@eduserv.org.uk](mailto:nevil.durrant@eduserv.org.uk)

**Nevil Durrant**  
Finance Director, Eduserv



Save the date: CFG's **IT, Data Insight and Cyber Security Conference** will be running in March 2017 – visit [www.cfg.org.uk/events](http://www.cfg.org.uk/events) for information.



# HOW TO SELECT CRM SOFTWARE

## *Selecting a CRM system is about more than just software, says Ivan Wainewright*

The most important thing to understand when selecting and implementing a new CRM system is that the software is (probably) the least important aspect of your project. Far more important is your data, people and processes and even the supplier you choose.

However, that is not to say that the CRM system itself is unimportant – it's just not as important as those other factors. So, with that in mind, how should you select a new CRM system?

### *Before you look at any software...*

It is very easy to jump straight in and look at database software before considering what your requirements are – don't! You should first hold a requirements gathering phase which will subsequently help you consider and research your options and appropriate software, and measure and compare the potential solutions against your needs.

To do this, you should talk to as many different stakeholders as possible. From database support staff and users who do the everyday operational work, through to managers who can specify what information and reports are important and directors who can advise on the current and future

strategies which they are implementing.

Additionally, many charities do not create a proper business case before procuring a new database – i.e. a comprehensive document which addresses all aspects of a business decision: your key requirements, scope, budget, constraints, risks and more. If you do this, then you will be far more likely to succeed.

From the above work you will be to create a statement of requirements (aka Invitation to Tender – ITT). But try to avoid the purely functional ITT. CRM suppliers who are more used to dealing with commercial ITTs have told me that charities can sometimes concentrate far too much on pure functionality in a tender document. And although that is of course useful up to a point, it doesn't give the suppliers a chance to understand the charity's real needs or the benefits they want/hope to get from the new system, and it doesn't necessarily give a supplier the

chance to show what they can bring to the table on top of just configuring a software system. Consequently, it doesn't really give a charity themselves the chance to review suppliers and their software as anything more than a software house.

So, when drafting your ITT, I'd recommend including information on:

- Your charity and the project's background;
- Key project requirements;
- Your priorities and business objectives;
- A bit about your project team;
- Record/storage requirements;
- Specific sections on each of your key business needs and non-functional requirements;
- Requests for costs and supplier information; and of course
- Functional requirements.

**“ You should talk to as many different stakeholders as possible ”**

**“ Many charities do not create a proper business case before procuring a new database ”**

## *Selecting Suppliers*

One question asked in almost every CRM procurement process is 'who should we invite to tender for our project?' You may know some companies you want to invite, but there may be others you have heard about, researched or are interested enough in that you want to know more. But (probably) the last thing you want to do is to invite ten or twelve different suppliers to do long software presentations and answer even a medium length ITT document. Apart from anything, if you tell a supplier that they are one of twelve you are inviting to tender then they aren't going to be nearly as driven to commit time and effort to you compared to when they are one of four or five.

One option is therefore to hold 'pre-tender qualifying' meetings with a 'long list' of suppliers with the idea of identifying a far smaller number of companies who you will then subsequently ask to be fully involved in the ITT process.

The idea behind this is that you meet at least those suppliers you are still uncertain about (and maybe even all possible suppliers for equality) but only for a comparatively short time and with a slightly different brief than you would have for a full software presentation. This is because the suppliers are such an important part of any implementation. Thus, you will learn about their knowledge, skills, client-base, project approach and so on. You will gain an awful lot just by discussing these sorts of things with

suppliers even for just two or three hours. That's enough to give you a better understanding of them and for them to feel they are being listened to – but that they don't have to spend hours preparing for a detailed presentation or answering a long ITT.

I always ask suppliers to bring to these meetings at least one of their project team who we would actually be working with. So it's not just the salesperson you are meeting, but also say, a project manager, implementation consultant, technical architect etc. The suppliers who value your business will do so. Those who do only bring a salesperson will tell you something about the company too.

You can then shortlist between three and five companies thereafter (or whatever number you are comfortable with), in order to get right down to detail. I find this process especially useful these days, with the sheer number of possible CRM system suppliers, there can be distinct differences amongst the business partners. But it is equally useful with the fundraising package vendors too.

Additionally, if you are considering 'generic' CRM systems, do consider multiple business partners for each platform (e.g. Salesforce, Microsoft Dynamics). And if you are considering a new fundraising system then don't just look at these CRM systems, and don't just look at Fundraising Packages (e.g. Raiser's Edge, ThankQ etc.) My starting point for any new fundraising database

procurement is that both of these options are viable until we decide otherwise. Both types of system have benefits and both have their issues and drawbacks to consider.

## *Evaluating Suppliers*

Historically, charities have held 'beauty parades' of software suppliers where they just ask a number of companies to demonstrate their software. But this gives you limited exposure to really understanding a supplier's approach, ethos and people.

One option you could take is to create a shortlist of two to three suppliers and then ask them to create a 'Proof of Concept' for a specific element of your requirements. Clearly, this is going to take them time and it also means a time commitment for you too, so you need to be quite clear about this process right at the start of the procurement process in order that the suppliers accept this. You also need to select an area which will show a supplier's knowledge and skill but without expecting them to spend weeks doing heavy customisation.

But if you can achieve this, you will be much further toward understanding what a supplier can do, and as importantly, how they approach it. After all, the suppliers will need to spend time with some of your staff to understand the need, and thus your staff can learn how the supplier does that and whether their

approach fits in with your organisation's way of working.

A supplier scoring system is also useful – but it's not the be-all-and-end-all. The way I do it is to create different scoring systems for different parts of the procurement; 'weight' scores for more/less important factors; give actual scores a 'quantifiable meaning' so that your staff score evenly (e.g. '0: showed no evidence of understanding', '1-2: showed some evidence of ability but still lacking' etc.) Don't just score on software functionality and price. Ask people to score individually, not together. Ask people to add 'accompanying notes' to each score on their scoring sheet so that when you discuss them later you can compare what different people meant by each score.

I often ask staff to also add 'non-scoring questions', such as 'what were your key concerns about the supplier?', 'what would you say if I told you we were going to buy Supplier X tomorrow?', so it adds some context too. This can make people think much harder than just giving a 1 or 5 score to a supplier.

But even if you follow all this and more, I still believe that scoring should not be the be-all and end-all to a decision process. Some elements of judging a company may be too difficult or too subjective to score, or some things may just be so important that they can't be ignored. For example, an absolutely critical factor that a

supplier fails to provide, but they were great at everything else and thus got a higher score. And if two suppliers are only a few marks apart, should the one with the highest score definitely go through?

### Understanding Costs

When it comes to cost, I usually recommend the concept of 'Total Cost of Ownership' (TCO): i.e. not just considering the cost of the software on day one, but calculating all costs over, say, a five year period. The sort of costs you might want to consider therefore include:

- Software (licenses, user numbers);
- Hosting/Storage (including, for larger implementations, costs for Development, Staging and Production environments);
- Your own Internal Project Team (i.e. back-filling etc.);
- Supplier Professional Services;
- Data migration;
- Integration;
- Annual (on-going) Costs; etc.

Ask for costs in a structured way on your tender document so that you can compare them more easily. A new CRM database doesn't mean you will then be able to just 'do CRM'... CRM is not about software – CRM is a policy and a practise and a whole culture – not (just) a database. In fact, it is possibly one of the most abused terms in the IT industry.

Yes, a good database will of course help your CRM strategy and it should bring plenty of benefits; but don't let any software vendor tell you that if you buy their database then you will immediately, magically be able to 'do better CRM'. It is your organisation and their approach which defines that.

The database will help, but CRM software will not automatically implement CRM at your organisation.

*This article originally appeared in Finance Focus magazine in June 2015.*

**Ivan Wainewright**  
IT for Charities



Explore how cloud computing can help your charity work more efficiently. CFG's **Cloud Computing for Charities** training is taking place on 18 October 2016. Find out more at [www.cfg.org.uk/events](http://www.cfg.org.uk/events).

## CYBER-SECURITY FOR CHARITIES: TECHNOLOGY IS NOT THE ANSWER

In the face of state-sponsored surveillance, hacking, widespread use of smartphones and social media, securing your IT systems against attack may look more like an unclimbable mountain than an uphill struggle, especially for a charity with limited financial resources and technical expertise. The good news is that you don't have to be a hardcore techno-geek to be able to improve your organisation's cyber security position.

Although hacking, denial-of-service and malicious code attacks require a platform of technology in order to be possible, the vulnerabilities which allow the attacks to take place are almost always traceable to failures of process or awareness during planning, procurement or maintenance stages of a system.

These are process and culture issues which cannot be solved solely by the addition of yet more technology, so don't be fooled into thinking that a massive investment in sophisticated technology is necessary to improve your cyber security position.

### So what is needed to improve your cyber security?

**People: Education of the workforce.** This doesn't mean that your people all need to be able to understand firewall rule sets or be able to deconstruct virus code. What does matter is that they know what they are and what they aren't allowed to do on your ICT systems, that they adopt good security habits and they know how to recognise suspicious activity and report concerns.

As well as building basic good habits among your workforce, there will also be a need for specialist knowledge – your IT team must have advanced training in managing cyber security risk. Your project managers need to be able to recognise when a project has cyber security implications and bring in the necessary expertise. If your organisation cannot afford an in-house cyber-security team, consider engaging a Security as a Service provider. These services will offer a range of cyber-security protections and expertise on an as-needed basis.

**Processes and standards:** Your procurement process must include evaluation of suppliers for cyber-security risk – certification to a known standard such as ISO27001 or the HM Government Cyber-Essentials can be a good indicator. But these should always be backed by evidence, preferably a third party audit or formal accreditation process.

**Systems maintenance and change controls:** someone must be ultimately accountable for making sure that systems are kept up-to-date and reasonably well-protected over time. Don't assume that all technology is necessarily your internal IT department's problem – external systems are just as likely to be attacked and unless responsibility for maintenance and security is clearly defined in the service contract, your organisation could end up bearing the cost of repairs and reputational damage in the event of an attack.

**Technology:** Forget about sophisticated threat intelligence and security alerting "solutions" while you are still sorting out the basics. If

your organisation is running out-of-date software, giving everyone administrative access, allowing insecure remote connections or failing to control how users install and run programs then you don't need an expensive appliance to tell you that you're heading for trouble.

No single piece of technology, product or "solution" will make you cyber secure.

The bottom line is; cyber security is not a one-time activity, it's a lifetime risk management programme. To make sure your cyber-security approach succeeds, resource it properly and keep it visible to senior management. Above all, don't assume that being a charity gives you a free pass from cyber-attack!

*This article originally appeared in Finance Focus magazine in August 2015.*

**Rowenna Fielding**  
Information Governance Manager,  
Alzheimer's Society



# WHY US?! WHY WOULD CHARITIES FALL VICTIM TO CYBERCRIME?

*Sandra Peaston talks through potential motivations for attacking charities, and highlights some controls to help thwart cybercrime.*

When it comes to the dangers of cybercrime, people’s attitudes tend to fall somewhere between two extremes – ‘it’ll never happen to me’ or ‘the end of the world is nigh’.

For those nearer the ‘it’ll never happen to me’ end of the spectrum, I have bad news. You are not immune. You may feel that as a charity, you are not likely to be targeted by those that perpetrate cybercrime, but it is worth remembering that there are different objectives and motivations for fraudsters.

Cyber criminals’ objective is often profit. As a charity you have money and a cyber-criminal may well not care about the intended purpose of that money. Additionally, they may (rightly or wrongly) perceive that yours is easier to get to. Identity theft is also a substantial problem in the UK, and charities can fall victim to data breaches. A cyber attack on a charity may well be in order to obtain the details of donors, who are likely to be a good credit risk and therefore an ideal victim of impersonation.

For those with an ‘end of the world is nigh’ opinion on cybercrime, the good news is that you probably already have a lot of the building blocks in place for an effective cyber defence. These just need to be used effectively. The Government Cyber

Essentials scheme looks at mitigating cyber threats through 5 key areas which you can control:

- 1. **Boundary firewall and internet gateways:** securing what goes in and out of your network
- 2. **Secure configuration:** reducing the vulnerability of devices on your network.
- 3. **User access control:** ensuring that access to sensitive data and services only goes to those that need it.
- 4. **Malware protection:** software to spot and block malware.
- 5. **Patch management:** fixing known vulnerabilities and keeping software up to date.

Within the above, the controls themselves can be largely summed up as:

- When you get it out the box, configure it and change any default passwords.
- Keep software up to date, downloading and installing all updates and patches.
- Restrict unnecessary access, including what websites’ software can talk to as well as what data and websites users can get to.
- If you don’t need it, get rid of it. Uninstall or disable software or accounts that are no longer required.

While taking these relatively simple steps can prevent most of the cyber-attacks that you’re likely to be faced with, it is not perfect. For example, there will be malware that the malware protection software doesn’t have a signature for yet – known as ‘zero-day’ threats. This is where your people come in. The added line of defence that often

goes unacknowledged is the people that work within an organisation.

Good staff training will mean that staff are not going to do the things that are at the root of a lot of cyber-attacks – things like clicking on links in emails that they shouldn’t, opening attachments from sources they don’t know, plugging in USB sticks that they find lying around, trying to bypass controls that they think are making doing their job more difficult, leaving their workstations unlocked when they’re away from their desk and letting strangers into offices unchallenged. These are all actions that can allow a cyber-attack to breach those technical defences that you’ve spent money on, and time configuring and maintaining.

Well-trained staff add an extra layer of protection on top of technical defences to help mitigate any threats that your kit doesn’t cover. Never forget that your people are one of your best defences.

*This article originally appeared in Finance Focus magazine in August 2015.*

**Sandra Peaston**  
*Deputy Head of Financial Crime and Strategic Intelligence, CIFAS – The UK’s Fraud Prevention Service*



# 12

## USEFUL RESOURCES



### IN THIS SECTION

**Model job description:**  
*Finance Manager – Charity*

**Model job description:**  
*Director of Resources*

**Model role description:**  
*Honorary Treasurer*

*Please note that all of the resources in this section are available in the member’s area of the CFG website as Word documents, which you can download and tailor to your needs.*

**Model Terms of Reference:**  
*the Finance Committee*

**Model Terms of Reference:**  
*the Audit Committee*

**Model Terms of Reference:**  
*the Investment Committee*

**Example Code of Practice**  
*for Trustees*

**Example Internet and Email**  
*Usage Policy and Guidelines*

**Example Checklist for**  
*Company Secretaries*



# MODEL JOB DESCRIPTION: FINANCE MANAGER – CHARITY

Reporting to:.....  
Direct reports:.....  
Purpose of role:.....

**Areas of responsibility:**

- Preparation of the annual statutory accounts and management of the audit
- Preparation and submission of relevant Charity Commission, Companies House and HMRC returns
- Review and submission of quarterly VAT returns
- Preparation and submission of Gift Aid claims as appropriate
- Liaison with the payroll bureau and payment of monthly salaries
- Review of monthly bank reconciliations and routine financial processes
- Preparation of cash flow forecasts
- Responsibility for effective treasure management
- Responsibility for maintaining and updating the financial system to ensure maximum financial control
- Responsibility for updating and maintaining all financial procedures to ensure maximum efficiency and control
- Lead liaison with banks, auditors, HMRC, loan and grant making bodies
- Preparation of ad hoc management reports as appropriate
- Lead role on topical finance projects as appropriate
- Ad hoc financial advice to staff and trustees as required

**Personal specification:**

- The candidate is required to have the following skills and experience:
- Fully qualified accountant
  - Charity financial and management accounting experience at finance manager level
  - Commercial accounting experience, ideally at manager level
  - Extensive VAT knowledge and experience
  - Extensive knowledge of relevant SORPs
  - Experience of producing Charity final accounts and managing an audit
  - Good verbal communication skills
  - Good report Microsoft office skills, particularly in excel
  - Familiarity with use of databases

**Additional desirable skills and experience are as follows:**

- Writing skills
- Familiarity with [name] accounting package [/any other software used in the role]
- Experience of Gift Aid claims
- Technical financial systems experience, including report writing
- Payroll experience

# MODEL JOB DESCRIPTION: DIRECTOR OF RESOURCES

Direct reports:.....  
Reports to: .....  
Purpose of role:.....

**Responsibilities:**

**Corporate**

- As a member of the executive team, contribute to the development and delivery of the organisational strategy.
- Working closely with our policy team, act as thought leader on specific areas of work for the organisation, attending meetings or speaking on our behalf as appropriate and promoting our work within the sector.
- Exemplify a continuing deep understanding of issues facing financial leaders in the charity sector.
- Build effective working relationships with stakeholders, from Trustees through to auditors to ensure that the organisation obtains maximum value from those relationships.
- Undertake the Company Secretary role for the organisation and any subsidiaries.

**Financial Management and Internal Control**

- Provide financial leadership to the senior team and together with the CEO to the Board of Trustees through the:
- Development of a strategic financial agenda.
  - Use of plans and forecasting scenarios.
  - Provision of clear timely relevant management accounts and key historic data.

- Provision of operationally relevant day to day financial data including cash flow.
- Management of the annual planning, budgeting and reporting processes and timetables, including the annual review and preparation of three year financial projections aligned to achieving the organisation's strategic objectives.
- Supporting and training colleagues to ensure they have the confidence to proactively engage with the financial agenda and are empowered to contribute to the management of the finances of the organisation as a whole, and their team in particular.
- To ensure the organisation's approach to risk management is fit for purpose and to lead the regular review and reporting of risk and the development of a robust assurance framework.
- Ensure that proper effective accounting records and financial control systems are maintained and that all financial matters are dealt with in a proper and secure manner.
- To ensure that the organisation meets all its statutory financial and regulatory obligations, and that appropriate tax planning is undertaken (including Companies House, Charity Commission and HMRC).
- To ensure that satisfactory financial administration systems and procedures are in place and are properly documented and adhered to.

- To ensure that all income due is promptly collected and monies owed are paid in a prompt and efficient manner.
  - To ensure that adequate insurance cover is put in place for the organisation's operations and activities.
- IT**
- To lead the development and implementation of the IT strategy, which will deliver the organisation's strategic and operational targets.
  - Ensure the organisation has appropriate project and programme management processes to ensure all change initiatives meet their objectives.
  - To champion knowledge management and the development of systems and processes to enable the more effective collection, collation, storage and dissemination of information across the organisation.

**HR**

- Working to ensure HR processes are appropriate, fit for purpose and legally compliant.
- Overseeing and managing the processing of payroll and pension arrangements.
- Supporting the CEO in ensuring the organisational development agenda supports the achievement of the organisation's objectives.

**Team**

- To foster a culture which supports organisational and individual learning.

CONTINUED...

- 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

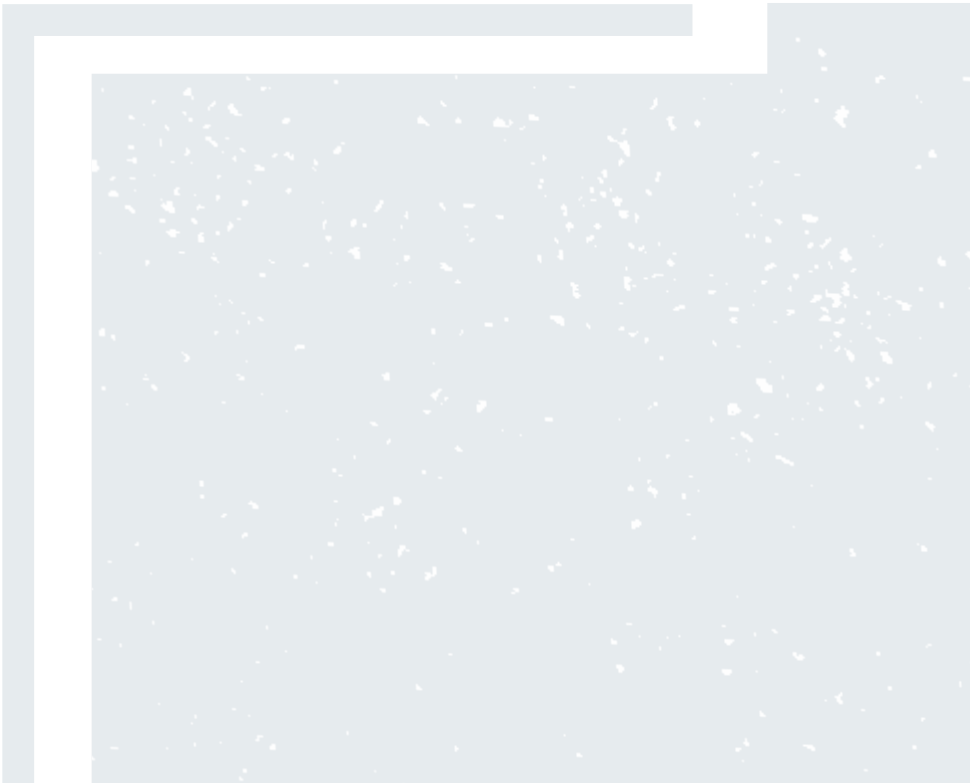
- To undertake any other duties as required by the CEO or the Board.

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

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.

The main responsibilities and duties of the Treasurer include:

- Overseeing and presenting budgets, internal management accounts and annual financial statements to the board of trustees.
- Leading in the board's duty to ensure that proper accounting records are kept, financial resources are properly controlled, invested and economically spent, in line with good governance, legal and regulatory requirements.
- Leading in the development and implementation of financial reserves, cost management and investment policies.
- Liaising, where applicable, with the appropriate member of staff responsible for the financial activities of the organisation.
- Chairing any finance committee in line with standing orders and terms of reference, and reporting back to the board of trustees.
- Monitoring and advising on the financial viability of the charity.
- Overseeing the implementation of and monitoring specific financial controls and adherence to systems.
- Advising on the financial implications of the charity's strategic plan.
- Overseeing the charity's financial risk management process.

- Acting as a counter signatory on charity cheques and important applications to funders; and
- Board level liaison with the external auditors on specific issues such as the Auditors' Management Letter and the related board representations.

The extent of these duties and the Treasurer's involvement will vary with the size and complexity of individual charities.

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.

Statutory financial reporting

The Treasurer's task here is to guide and advise fellow trustees in the board's formal approval of the annual report and [audited] accounts. Therefore it is important the Treasurer is fully aware of their

content, regardless of any involvement in their preparation.

Investment

The Treasurer needs to be closely involved in the overall management of this important asset. Many charities have investment sub committees convening several times a year, where the Treasurer and other committee members are able to meet with the external investment advisers or managers to discuss targets, constraints, performance and future investment policy. The Treasurer may well have to chair the charity's investment committee.

Staff pension

Pensions legislation and regulation has greatly increased, and Treasurers need to be able to advise fellow trustees on the financial intricacies and implications.

Risk Assessment and Risk Management

Treasurers need to ensure that the risk management process is adequate and that the financial implications of risk are fully taken into account.

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

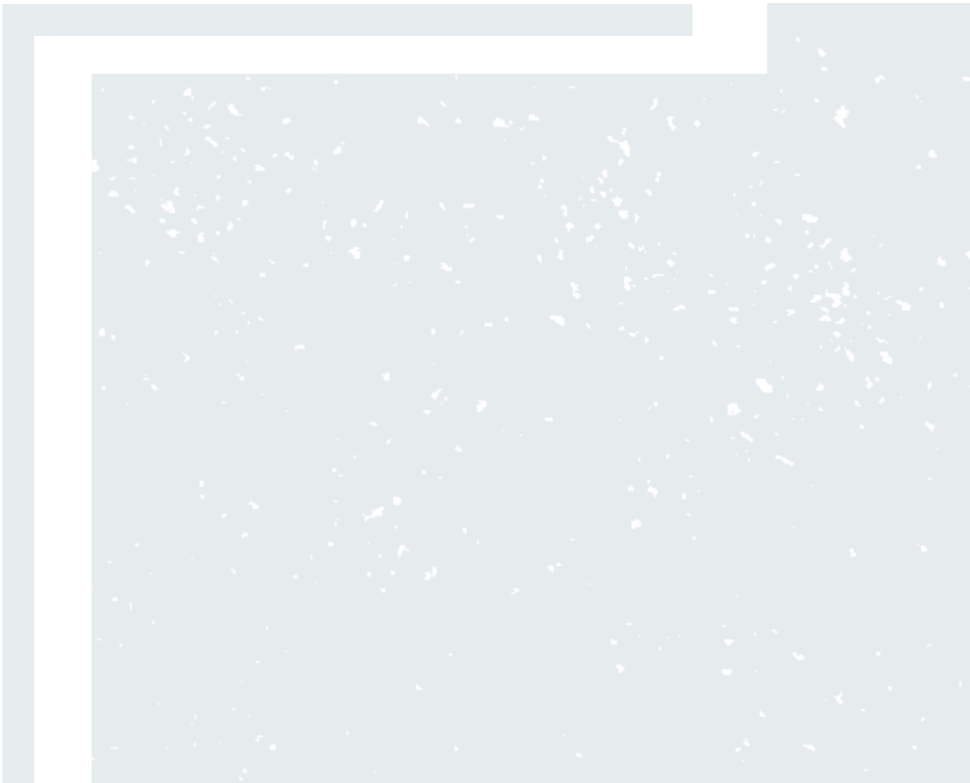
In larger charities it will be necessary to have a committee of the trustee board to deal in more detail with financial and perhaps investment, fundraising and operational management issues. In many cases the Treasurer will chair a finance or resources committee and report back on its work to the full 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 Treasurer’s Relationships with the Executive

The Treasurer will also have important relationships with the executive, the most important of which is the relationship with the Director of Finance. The Treasurer will also have a more distant but nevertheless important relationship with the Chief Executive. Chief Executives should ensure that the main interface on financial matters is between the Treasurer and the Director of Finance. However, the Chief Executive and the Director of Finance should meet the board’s Chair and Treasurer occasionally to discuss major aspects of the strategy, operational activities and finances of the charity. Where possible, the Chief Executive and the

Finance Director 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](http://www.honorarytreasurers.org.uk).



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 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.
- 5 The Chief Executive, Finance Director, H.R. Director and Head of Finance will normally be in attendance at all meetings.
- 6 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.
- 7 Unless otherwise determined by the Committee, a quorum shall consist of two members of the Committee.
- 8 The Committee will not meet less than three times a year and additionally as may be necessary. Where possible, and without compromise to the balance of skills, the composition of the Committee should be such so as to achieve a reasonable balance in terms of gender, age and ethnicity.

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

Financial

- 1 To review the draft of the [three/ five] 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.
- 3 To agree and review the Charity’s attitude to financial risk and the Charity’s asset allocation strategy.

- 4 To review the performance of the Charity’s portfolio of investments.
- 5 Consider changes to investment strategy and make appropriate recommendations to the Board.
- 6 To review the performance of the Charity’s Investment Managers and to meet them formally at least once a year.
- 7 Report to the Board of Trustees.

Pensions

- 1 To monitor and review the Charity’s Pension Schemes.
- 2 To recommend to the Board of Trustees appropriate actions following any scheme valuations, e.g. Triennial, FRS 102.
- 3 To approve the actuarial assumptions to be applied in the calculation of the scheme liabilities used in the FRS 102 valuations.
- 4 To review the Performance of the Charity’s Pension Fund Managers and to meet them formally at least once a year.
- 5 To review the asset allocation strategy for the Final Salary Scheme at least once a year.
- 6 To consider if there are any notifiable events under The Pensions Act 2014.
- 7 To report to the Board of Trustees.

With thanks to Fiona Condron, Director, BDO LLP for reviewing and updating this Terms of Reference.





# MODEL TERMS OF REFERENCE: THE AUDIT COMMITTEE

*Please note that some organisations will have a combined audit and risk committee, which will have a broader remit.*

## Composition, attendees, quorum & reporting

- 1 The Audit Committee is a Committee of the Board of Trustees ("the Board"), and reports directly to the Board. The Chairperson of the Committee is appointed by the Board. In addition to the Chairperson, the Committee comprises two or three other Trustees appointed by the Board as members. At least one member of the Committee shall have significant, recent and relevant financial experience. Other members of the Finance Committee are invited to attend the Audit Committee's meeting when the draft annual accounts are reviewed.
- 2 The Chief Executive, Finance Director and Internal Auditor will normally be in attendance at all meetings, with the external auditors as appropriate.
- 3 The Committee has the authority of the Board to have access to any information or employee of the Charity in the course of undertaking its responsibilities, and to obtain outside legal or other independent advice.
- 4 Until otherwise determined by the Committee, a quorum shall consist of three members of the Committee.
- 5 The Committee will have the power to co-opt external members as appropriate.
- 6 The Committee will continually review the training and development needs of committee members. The Chair of the Committee will ensure there will be an induction programme for new Committee members.

- 7 The Committee will meet not less than twice a year and additionally as may be necessary.
- 8 The Internal Auditor [or Company Secretary etc., if there is no Internal Auditor] is the Secretary to Committee Meetings. Minutes of meetings will be reviewed by the Board of Trustees when approved by the Committee Chairperson.
- 9 The Chair of the Committee (or in his/her absence, another Trustee member of the Committee) shall report to the Board at the next Board meeting.

## Responsibilities

### General Objectives

- 1 On behalf of the Board it maintains an overview of the Charity's risk management and governance processes, ensuring that the system of internal control is satisfactory to deliver regulatory compliance.
- 2 Review the annual internal audit plan, ensure coordination between the internal and external auditors and ensure the internal audit function is adequately resourced.
- 3 Monitor and review periodically the effectiveness of Internal Audit by reviewing the progress reports, any major internal audit recommendations and any major findings of internal investigations and management's responsiveness to them.
- 4 Review reports from management and Internal Audit on the effectiveness of systems for internal control, financial reporting and risk management.

- 5 Consider management's recommendation for the appointment or dismissal of the head of internal audit.

## Specific Responsibilities

- 1 To determine the frequency and process of tendering for the external audit service.
- 2 To consider the appointment, resignation or dismissal of the external auditors, to approve their fee annually, and to review their independence and objectivity and matters relating to the provision of non-audit services.
- 3 To formally review the performance of the external auditors every 3 years.
- 4 To discuss with the external auditor, before the audit commences, the nature and scope of the audit and to review the auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- 5 To review the annual financial statements in conjunction with the external auditors before submission to the Trustees, focusing particularly on the consistency of the Trustees' Report with the financial statements, and:
  - The quality of control arrangements put in place over the preparation of the accounts by the Finance Director;
  - Critical accounting policies and practices and any changes in them;
  - major judgemental areas;
  - The extent to which the financial statements are effected by any unusual transactions in the year and how they are disclosed;

- The clarity of disclosures;
  - Significant adjustments resulting from the audit;
  - Material misstatements detected by the auditors that individually or in aggregate have not been corrected, and management's explanations as to why they have not been adjusted;
  - The ongoing concern assumption;
  - Compliance with accounting standards and legal requirements;
  - The charity's statement on internal control systems prior to endorsement by the Board and reviewing the policies and processes for identifying and assessing business risks and the management of those risks;
  - 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, Director, BDO LLP for reviewing and updating this Terms of Reference.*



# MODEL TERMS OF REFERENCE: INVESTMENT COMMITTEE

Approved by the board of trustees  
on dd.mm.yy

## 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 approves recommendations from the board of [subsidiary company]; authorisation for the actual property disposal follows the procedure agreed by the board of trustees on dd.mm.yy.

## Operational properties

It should be noted that the committee's terms of reference do not extend to reviewing the terms of leaseholds entered into, although it does monitor the activities of [subsidiary company] through which property transactions are managed. 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 the visiting trustee or independent committee member for the property and facilities management section and by trustees' regular visits to nations and regions.

## 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 will 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
- By a decision of the investment committee

If an appointment is made by the committee, the appointee shall hold office only until the next November meeting of the board of trustees and may be reappointed at that meeting by the board of trustees.

## 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, Sisters of Nazareth, reviewed January 2016.*

# EXAMPLE CODE OF PRACTICE FOR TRUSTEES

## Introduction

Those who serve on the Board of Trustees of [ORGANISATION] 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 attached 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 over 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 bod, and I give my consent for [ORGANISATION NAME] to carry out checks against the Charity Commission's lists of removed or disqualified trustees.

- I am not subject to a disqualification order under the Company Directors' Disqualification Act 1986 or to an Order made under section 429(b) of the Insolvency Act 1986.
- I have not been convicted of an offence involving deception or dishonesty (unless the conviction is spent).
- I undertake to fulfil my responsibilities and duties as a trustee of [ORGANISATION NAME] in good faith and in accordance with the law and within [ORGANISATION NAME]'s objectives/mission.
- I do not have any financial interests in conflict with those of

[ORGANISATION NAME] (either in person or through family or business connections) except those that I have formally notified in a conflict of interest statement. I have reviewed the list of all suppliers that do more than £5,000-worth of business with [ORGANISATION NAME] (as distributed to Trustees annually) and have notified the Board of any potential conflict of interest. I will specifically notify any such interest at any meeting where trustees are required to make a decision that affects my personal interests, and I will, unless agreed otherwise, absent myself entirely from any decision on the matter and not vote on it.

I will abide by this Code of Practice for Trustees of the [ORGANISATION NAME].

Signed:

Date:

Name of Trustee:



# MODEL INTERNET AND EMAIL USAGE POLICY AND GUIDELINES

## 1. Introduction

**1.1** This policy sets out the obligations and expectations on employees of the [ORGANISATION NAME] including contractors and temporary staff, who use [ORGANISATION NAME]'s IT facilities for internet and email purposes. IT facilities are provided to assist with day to day work. It is important that they are used responsibly, are not abused, and that individuals understand the legal professional and ethical obligations that apply to them.

## 2. Authorisation

**2.1** No person is allowed to use [ORGANISATION NAME]'s IT facilities who has not previously been authorised to do so. Unauthorised access to IT facilities is prohibited and may result in either disciplinary action or criminal prosecution.

## 3. Legislation

**3.1** All users shall comply with the relevant legislation. This includes the following:

**3.2.1** Data Protection Act 1998 / Freedom of Information Act 2000

Users need to be sure that they are not breaching any data protection when they write and send emails. This could include but is not limited to:

- Passing on personal information about an individual or third party without their consent.
- Keeping personal information longer than necessary.
- Sending personal information to a country outside the EEA.

Email should where possible be avoided when transmitting personal data about a third party. Any email

containing personal information about an individual may be liable to disclosure to that individual under the Data Protection Act 1998. This includes comment and opinion, as well as factual information. Therefore this should be borne in mind when writing emails, and when keeping them.

**3.2.2** *Computer Misuse Act 1990*

This Act makes it an offence to try and access any computer system for which authorisation has not been given.

**3.2.3** *Copyright Design and Patents Act 1988*

Under this Act it is an offence to copy software without the permission of the owner of the copyright.

**3.2.4** *Defamation Act 1996*

Under this Act it is an offence to publish untrue statements which adversely affect the reputation of a person or group of persons.

**3.2.5** *Terrorism Act 2006*

This Act has makes it a criminal offence to encourage terrorism and/or disseminate terrorist publications.

**3.2.7** *Telecommunications (Lawful Business Practice) (Interception of Communications) Regulations 2000.*

This allows for any organisation to monitor or record communications (telephone, internet, email, and fax) for defined business related purposes.

## 4. Responsibilities

**4.1** All Users are expected to act in a manner that will not cause damage to IT facilities or disrupt IT services. Any accidental damage or disruption must be reported to a Line Manager as soon as possible after the incident has occurred. Users are responsible

for any IT activity which is initiated under their username.

## 4.2 Use of the Internet

Use of the Internet by employees is encouraged where such use is consistent with their work and with the goals and objectives of [ORGANISATION NAME] in mind. Reasonable personal use is permissible subject to the following:

- Users must not participate in any online activities that are likely to bring [ORGANISATION NAME] into disrepute, create or transmit material that might be defamatory or incur liability on the part of [ORGANISATION NAME], or adversely impact on the image of [ORGANISATION NAME].
- Users must not visit, view or download any material from an internet site which contains illegal or inappropriate material. This includes, but is not limited to, pornography (including child pornography), obscene matter, and race hate material, messages condoning violence, criminal skills, terrorism, cults, gambling and illegal drugs.
- Users must not knowingly introduce any form of computer virus into [ORGANISATION NAME]'s computer network.
- Personal use of the internet must not cause an increase for significant resource demand, e.g. storage, capacity, speed or degrade system performance.
- Users must not "hack into" unauthorised areas.
- Users must not download commercial software or any copyrighted materials belonging to third parties, unless such downloads are covered or permitted under a commercial agreement or other such licence.

- Users must not use the internet for personal financial gain.
- Users must not use the Internet for illegal or criminal activities, such as, but not limited to, software and music piracy, terrorism, fraud, or the sale of illegal drugs.
- Users must not use the internet to send offensive or harassing material to other users.
- Use of the internet for personal reasons (e.g. online banking, shopping, information surfing) must be limited, reasonable and done only during non-work time such as lunch-time.
- Use of gambling sites, is not permissible for personal use. Work-related use of social networking activities is acceptable, but should be used with discretion and towards the objectives of [ORGANISATION NAME], such as publicising the [ORGANISATION NAME]'s activities.
- Staff may face disciplinary action or other sanctions (see below) if they breach this policy and/or bring embarrassment on [ORGANISATION NAME] or bring it into disrepute.

## 4.3 Use of Email

Emails sent or received on the email system form part of the official records of [ORGANISATION NAME]; they are not private property. [ORGANISATION NAME] does not recognise any right of employees to impose restrictions on disclosure of emails within [ORGANISATION NAME]. Emails may be disclosed under the Freedom of Information Act, as part of legal proceedings (e.g. tribunals), and as part of disciplinary proceedings. Users are responsible for all actions relating to their email account/pc username and should therefore make every effort to ensure no other person has access to their account.

When using [ORGANISATION NAME]'s email, users must:

- Ensure they do not disrupt [ORGANISATION NAME]'s wider IT systems or cause an increase for significant resource demand in storage, capacity, speed or system performance e.g. by sending large attachment to a large number of internal recipients.
- Ensure they do not harm [ORGANISATION NAME]'s reputation, bring it into disrepute, incur liability on the part of [ORGANISATION NAME], or adversely impact on its image.
- Not seek to gain access to restricted areas of the network; this or other "hacking activities" is strictly forbidden.
- Not use email for the creation, retention or distribution of disruptive or offensive messages, images, materials or software that include offensive or abusive comments about ethnicity or nationality, gender, disabilities, age, sexual orientation, appearance, religious beliefs and practices, political beliefs or social background. Employees who receive emails with this content from other employees of [ORGANISATION NAME] should report the matter to their line manager or supervisor.
- Not send email messages that might reasonably be considered by recipients to be bullying, harassing, abusive, malicious, discriminatory, defamatory, and libellous or contain illegal or offensive material, or foul language.
- Not upload, download, use, retain, distribute, or disseminate any images, text, materials, or software which might reasonably be considered indecent, obscene, pornographic, or illegal.

Not engage in any activity that is likely to:

- Corrupt or destroy other users' data or disrupt the work of other users.
- Waste staff effort or [ORGANISATION NAME]'s resources, or engage in activities that serve to deny service to other users.
- Be outside of the scope of normal work-related duties – for example, unauthorised selling/advertising of goods and services.
- Affect or have the potential to affect the performance of, damage or overload [ORGANISATION NAME]'s system, network and/or external communications in any way.
- Be a breach of copyright or license provision with respect to both programmes and data, including intellectual property rights.
- Staff who receive improper email from individuals inside or outside [ORGANISATION NAME], should discuss the matter in the first instance with their line manager or supervisor.
- Personal use of [ORGANISATION NAME]'s email is not permitted.

## 5. Remote Users

**5.1** Users may sometimes need to use [ORGANISATION NAME]'s equipment and access the [ORGANISATION NAME] network while working remotely, whether from home or while travelling. The standards set out in this document apply whether or not [ORGANISATION NAME] equipment and resources are being used.

6. Monitoring

6.1 All resources of [ORGANISATION NAME], including computers, email, and voicemail are provided for legitimate use. If there are occasions where it is deemed necessary to examine data beyond that of the normal business activity of [ORGANISATION NAME] then, at any time and without prior notice, [ORGANISATION NAME] maintains the right to examine any systems and inspect and review all data recorded in those systems. This will be undertaken by authorised staff only. Any information stored on a

computer, whether the information is contained on a hard drive, USB pen or in any other manner may be subject to scrutiny by [ORGANISATION NAME]. This examination helps ensure compliance with internal policies and the law. It supports the performance of internal investigations and assists in the management of information systems.

7. Penalties for Improper Use

7.1 Withdrawal of facilities

Users in breach of these regulations may have access to [ORGANISATION NAME]'s IT facilities restricted or withdrawn.

7.2 Disciplinary Action

Breaches of these regulations may be dealt with under the [ORGANISATION NAME]'s disciplinary procedures. It may lead to termination of employment from [ORGANISATION NAME].

7.3 Breaches of the law

Where appropriate, breaches of the law will be reported to the police.

*This policy was kindly donated by Lutheran Council of Great Britain.*

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.
- 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.
- Annual Returns (AR01) will no longer have to be filed at Companies House. The change is scheduled to take place in April 2016. The new requirement is to file a statement every 12 months, confirming that Companies House has been duly notified of all changes (such as director appointments and change of director particulars) within that 12 month period. While this may help with company administration, don't forget your annual return to the Charity Commission still needs to be done.
- 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.

CONTINUED...

- Amendment of constitution: this must be filed with both the Charity Commission and Companies House. The filing at Companies must be within 15 days and the amendment does not take place until it is filed. The amendment of some part of the constitution will require Charity Commission consent before approving.
- In certain instances Charity Commission consent may need to be sought e.g. for payments to a trustee if not allowable under the constitution.
- Forms AP01 – AP04 as applicable are to be sent to Companies House within two weeks of a director or secretary joining the company, or forms TM01/TM02 when resigning. Forms CH01 – CH04 are sent to record changes of particulars for a director or secretary.
- All charges on the company’s property and assets must be recorded in the register of charges and Companies House notified within 21 days.
- If the charity operates in Scotland and/or Northern Ireland the secretary may also be responsible for registering with the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland and meeting their regulations.

Ongoing Review

The company secretary must consider a number of matters as part of his or her oversight of the charity’s affairs. For example:

- (a) The constitution: review the constitution to ensure that the provisions are appropriate to the current operation of the charity.
- (b) Good governance: review the processes for the appointment of trustees; consider arrangements for trustee induction and ongoing training; consider board performance review and a skills analysis; review the governance structure; review the effectiveness of board meetings and board information systems. Bring to the attention of trustees a number of publications published by the Charity Commission, and Good Governance – A Code for the Voluntary Sector (published by ACEVO, CTN, ICSA and NCVO).
- (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 such as:

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.

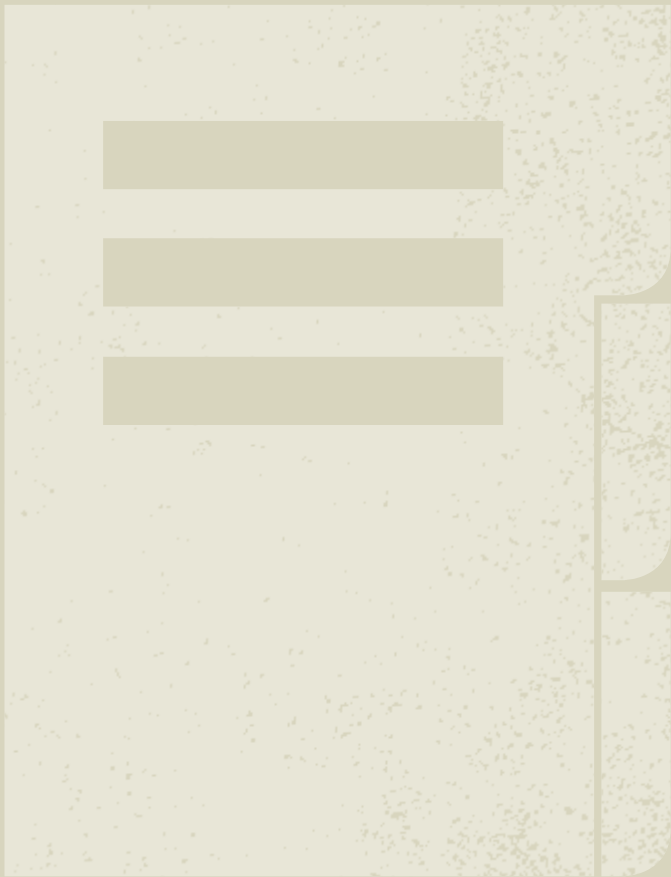
There are likely to be some exceptions, so stay tuned.

- (e) 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 guide to charity trustees’ responsibilities in the fundraising context. It will replace the Commission’s current guidance which is called Charities and Fundraising (CC20).
- (f) Contracts: review the procedure for entering into contracts and ensure ongoing compliance with terms and conditions of contracts
- (g) Property: review the procedures which are adopted when land or property is being acquired or sold or leased
- (h) Compliance with the Data Protection Act 1998
- (i) Safeguard the charity’s intellectual property

*Prepared and updated by Suresh Lalvani, chartered company secretary, updated January 2016*

13

CORPORATE PROFILES



IN THIS SECTION

Ecclesiastical Insurance

Quilter Cheviot

Royal London Asset Management

Saffery Champness

Standard Life

Waverton Investment Management



## ECCLESIASTICAL INSURANCE

Ecclesiastical has been helping to protect not-for-profit organisations for over 125 years and our goal is to be the most trusted and ethical specialist financial services group, giving £50m to charity over three years. We are also the UK's top insurance company for charitable giving, ranking Ecclesiastical 13th in The Guide to UK Company Giving.

We're owned by a charity ourselves which gives us a first hand specialist understanding of the needs of a charity. We also insure over 40,000 charities and community groups in the UK and this experience allows us to provide charity insurance that is flexible enough to meet the needs of a wide variety of charitable organisations, including:

- Charities;
- Not-for-profit organisations;
- Community interest companies; and
- Social enterprises.

We understand that there's no such thing as a typical charity and because we assess each charity on its own merits, we can tailor your cover and premium to your requirements.

For more information about Ecclesiastical please visit [www.ecclesiastical.com/charity](http://www.ecclesiastical.com/charity) or speak to your insurance broker about getting a quote from Ecclesiastical.



**SERVICES:** Insurance

### KEY CONTACT:

**David Britton**  
Charity Director  
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01452 875825



“Our goal is to be the most trusted and ethical specialist financial services group”

## QUILTER CHEVIOT



QUILTER CHEVIOT  
INVESTMENT MANAGEMENT

**SERVICES:** Investment Management

### KEY CONTACT:

**William Reid**  
Head of Charities  
[charities@quiltercheviot.com](mailto:charities@quiltercheviot.com)

Quilter Cheviot is a wholly owned subsidiary of Old Mutual Wealth. We manage assets in excess of £16.9bn\* focussing on providing bespoke investment portfolios for charities, trusts, pension funds and private clients. The management of the charity portfolio, led by our London based charity team and supported by our regional charity specialists, is a core competence of our business.

We are one of the leading charity investment managers in the sector, managing £1.49bn\*\* of assets. A number of our investment managers are also charity trustees so we

understand the challenges that come with this responsibility. We believe that it is essential for trustees to have direct access to their investment manager and management team so we avoid the use of relationship managers.

Our investment philosophy is to ensure that our process is entirely open and understood, we work on the principle that the best returns are achieved when our firm and each charity work as a team. We offer comprehensive reporting, efficient administration and a competitive, transparent fee.

\*31 September 2015

\*\* 30 June 2015

## ROYAL LONDON ASSET MANAGEMENT



**SERVICES:** Investment Management

### KEY CONTACT:

**Philip Clifford**  
Sales Director  
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020 7506 6768

Royal London Asset Management is one of the UK's leading investment companies. RLAM has built a strong reputation as an innovative manager, investing across all major asset classes and delivering consistent long-term outperformance. RLAM manages over £83 billion of assets\* split between equities, fixed interest, property and cash, with a market leading capability in sustainable investing. We manage over £2.3 billion on behalf of around 151 charities\* in the UK. Products include funds and segregated accounts investing in government bonds, investment grade, and high yield, equity income and equity growth across global developed markets, as well as UK property and

cash, including short-term money market instruments.

Using the above asset classes, our wide range of investment strategies include:

- Target return
- Responsible investing
- Ethical investing
- Absolute return
- High yield
- Cash management
- Property
- Multi Asset

\*Source: RLAM as at 30 September 2015

# SAFFERY CHAMPNESS

Our national team of charity and not-for-profit specialists operates from nine offices around the UK, helping our clients to thrive by consistently providing expert, pragmatic and well-rounded advice.

Our clients range from new start-up charities to centuries-old livery companies, from clubs and membership organisations to

social enterprises and service delivery charities, from grant-givers and endowed foundations to theatres and education establishments.

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. Many of our team are also trustees themselves.

Saffery Champness  
CHARTERED ACCOUNTANTS

**SERVICES:** Audit and assurance, accounting and outsourced services, tax compliance and advice and VAT services

#### KEY CONTACT:

**Liz Hazell**  
liz.hazell@saffery.com  
www.saffery.com



## Join a CFG Special Interest Group

CFG's networking groups allow members with particular interests to share knowledge, ideas and information.

The Special Interest Groups operate as LinkedIn discussion groups, but also meet to enable face-to-face networking and presentations from speakers.

Our Special Interest Groups include:

- **Overseas (OSSIG)**  
Networking group for finance staff in international NGOs, who are based in the UK.
- **Large Charities**  
Networking for CFG member charities with a gross annual income in excess of £25m.
- **Community Accounting**  
For CFG members who deliver community accounting services



CFG will be launching new groups throughout 2016 - visit [www.cfg.org.uk](http://www.cfg.org.uk) to stay up to date.

# STANDARD LIFE WEALTH

## Our Investment Management Service for Charities

Like most charities or not-for-profits, you are likely to have a variety of different objectives for your organisation's investments. For part of your reserves, your priority may be preserving your spending power against the erosive effects of inflation. Alternatively, you may be looking to achieve more ambitious returns with some of your investments. Generating a sustainable level of income can also be an overriding concern.

At Standard Life Wealth, we offer a holistic approach to managing money: from preservation to generation. We will spend time getting to know your organisation before delivering an investment approach that aims to meet these unique requirements.

We have a strong focus on delivering excellent investment performance across asset classes and are proud of the institutional research process that underpins our offering. We believe in the importance of taking a global perspective and are one of the few firms with a truly worldwide research capability. In addition, we recognise that many charities have an ethical investment policy. We have the experience and capability to deliver responsible investment solutions that meet these needs.

## What makes Standard Life Wealth different?

Our holistic approach to managing money combines two distinct methods of investing.

#### Conventional approach:

- Invests in traditional asset classes, like equities, bonds and property, and is backed by our global institutional research process;
- Aims to outperform the market or an agreed benchmark.

#### Target return, volatility managed approach:

- Has a broad level of diversification and aims to outperform a specific cash-plus target;
- Aims to not lose money in any 12 month period.

We are committed to supporting the not-for-profit sector. We have a team of charity specialists based in our offices in London, Leeds, Edinburgh, Birmingham and Bristol. Our existing clients value our commitment to providing an exceptional level of personal service.

#### By choosing Standard Life Wealth your organisation will benefit from:

- Direct access to a dedicated Portfolio Manager who is responsible for looking after your organisation's investments and is available for regular review meetings;
- An online client portal and regular customised quarterly reports;
- As part of our service, we can offer trustee training and other technical support where appropriate.

Standard Life  
Wealth

**SERVICES:** Investment Management

#### KEY CONTACTS:

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0207 868 5851

**“We offer a holistic approach to managing money”**

# WAVERTON INVESTMENT MANAGEMENT



Waverton is a discretionary investment management house dedicated to creating high quality investment portfolios and providing a personal service for charities, private individuals, trusts, and institutions.

We have looked after charities since our inception in 1986 and understand how to manage charitable investment assets in a prudent, pragmatic and flexible way. We have more than 100 charity clients who account for over 10% of our assets under management; almost 30% of these clients have an ethical or responsible investment policy.

Our principal aim is to generate attractive real returns for our clients

over the long term, using an active, flexible approach through segregated portfolios or specialist funds. We attach huge importance to investing in what we believe to be the best ideas worldwide, be that in individual stocks, funds, fixed interest or alternative asset classes.

The total headcount of the firm today stands at over 100 members of staff, of which a quarter are portfolio managers with direct client relationship responsibilities. We pride ourselves on our personalised client service and comprehensive in-house administrative operations.

**SERVICES:** *Investment Management*

## KEY CONTACTS:

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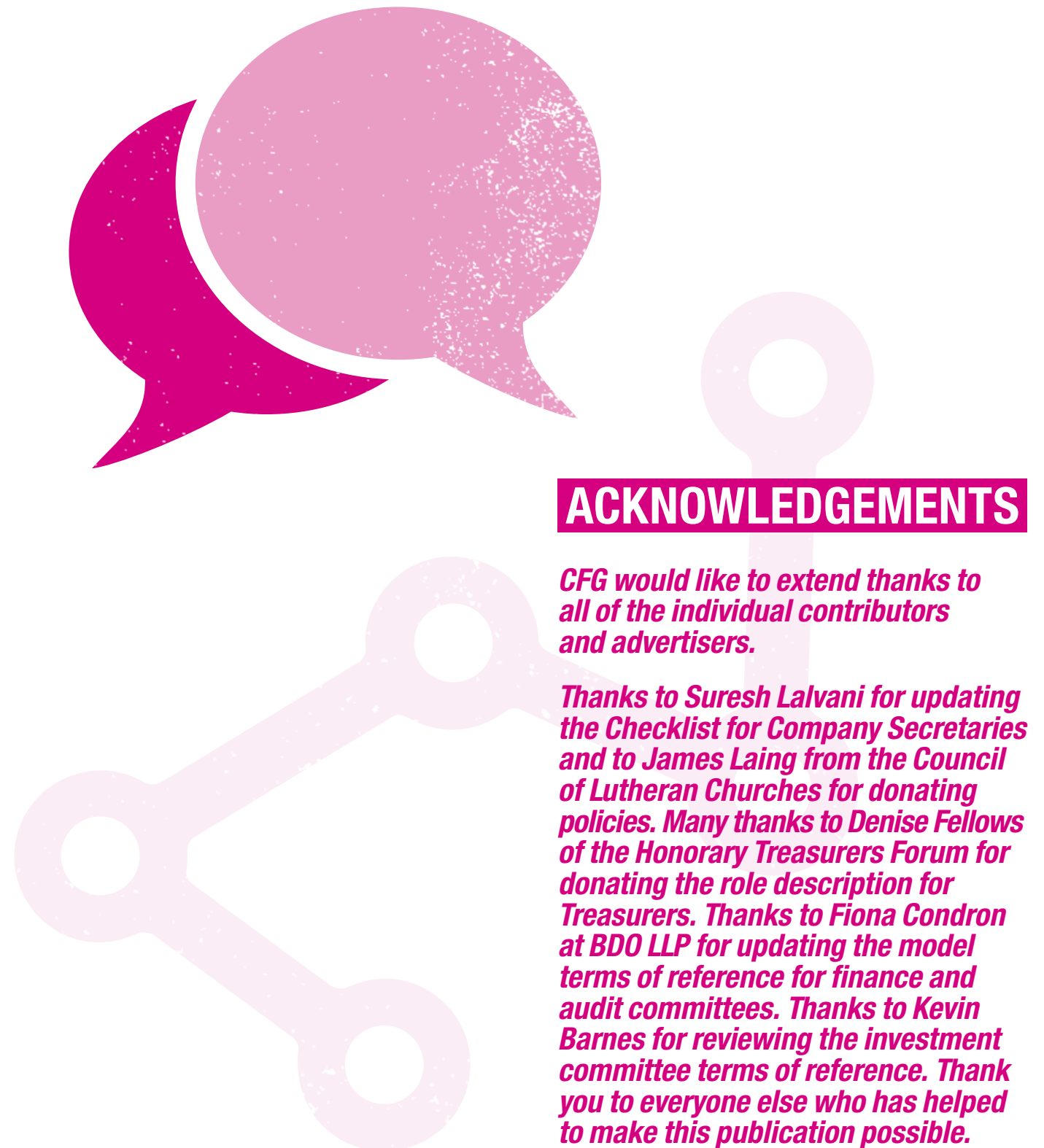
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Authorised and Regulated by the Financial Conduct Authority.  
Registered in England No 2042285

**“ We have looked after charities since our inception in 1986 and understand how to manage charitable investment assets in a prudent, pragmatic and flexible way ”**



## ACKNOWLEDGEMENTS

**CFG would like to extend thanks to all of the individual contributors and advertisers.**

**Thanks to Suresh Lalvani for updating the Checklist for Company Secretaries and to James Laing from the Council of Lutheran Churches for donating policies. Many thanks to Denise Fellows of the Honorary Treasurers Forum for donating the role description for Treasurers. Thanks to Fiona Condon at BDO LLP for updating the model terms of reference for finance and audit committees. Thanks to Kevin Barnes for reviewing the investment committee terms of reference. Thank you to everyone else who has helped to make this publication possible.**

**Published by**  
Charity Finance Group (CFG)  
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# Leading charity advisors

- ▶ Top charity auditor for the past seven years — Charity Finance audit survey and Charity Financials audit league table
- ▶ Number one for charity expertise — Charity Finance Audit Survey 2014
- ▶ Auditor of the greatest number of major charities
- ▶ Largest team of charity specialists in any firm of accountants
- ▶ Global advisory firm of the year 2015 — International Accounting Bulletin
- ▶ Pensions Accountancy Firm of the year, Pension Age 2014 and 2015
- ▶ Taxation Awards 2014 – LexisNexis Taxation Awards

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