charitytimes

June/July 2018

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A SHINING LIGHT
FOR CHARITY
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We need to raise the tone

Hundreds of thousands of quotes slip in and out of my inbox every month, but the phrase that resonated with me most recently was this: "It's important to raise the tone, but not the volume".

The speaker behind the sentence was Matthew Hodson, the CEO of aids charity NAM, who spoke at the *Charity Times Annual Conference* in May (read all about it on p.24). Hodson was referring to social media – to the way charities can exude power through heightening the tone of their subject, without being argumentative or aggressive about it.

But it was the confidence behind his message that stuck with me more than the message itself. As the CEO of an aids charity, Hodson has a number of personal and sensitive messages to convey, and his approach to communicating them was inspiring. One quick look over his Twitter page and you'll see he's not afraid to be bold, honest or controversial, but never does he shout too loudly.

There's an important message for the rest of us in there – an attitude towards honesty, candidness and heroism that could certainly be adopted sector-wide. At a time when charities feel muted by the lobbying act and fearful of reputational damage post-Oxfamgate, charities should be reminded it is entirely possible to speak up for what is right, without causing a scene.

In the last couple of months alone, we have reported on countless cases of internal fraud within charities (see p.27), and, according to the Charity Commission, the majority of these are facilitated by a "lack of challenge" from people working within the charity itself.

But this is something that can be changed. As Mia Campbell, head of anti-fraud charity Fraud Advisory Panel explains: "Effective fraud prevention begins with good governance [and] having the right tone at the top is essential."

While many of you may feel challenged by the tightening of rules and regulations (p.20), speaking up and being honest doesn't have to be difficult. Whether you're a CEO with the ability to mould workplace behaviour, or a trustee who can encourage a culture of openness within the board, there is scope for everybody to raise the tone and change the culture of silence, all without increasing the volume.

Lauren Weymouth, Editor

charitytimes

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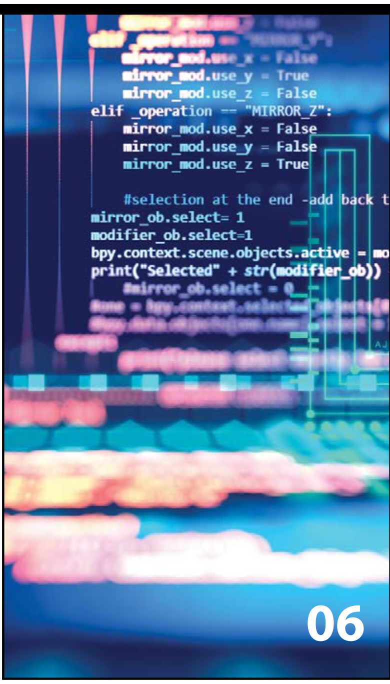

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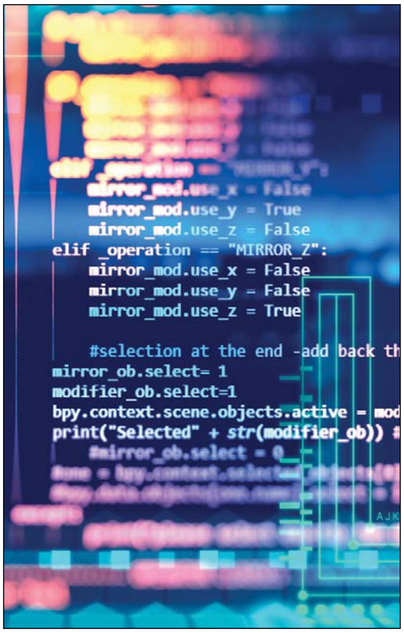

CHARITIES WARNED TO "GET INTO THE GUTS" OF BLOCKCHAIN

Charities have been warned to "get into the guts" of blockchain soon, or risk being left behind. Blockchain technology offers a way for funders to go directly to beneficiaries and their immediate supporters. According to a new report commissioned by Charity Futures, *Nothing to lose (but your chains)*, charities need to get to grips with it now, before it's too late. Charity Futures is calling for all charity leaders to come together and explore the opportunities that technological innovation could provide to the sector.

GRENFELL TRAGEDY SHOWED CHARITIES NEED TO IMPROVE COORDINATION, REPORT FINDS

The new report, published by Muslim Aid, has revealed the lessons learned by the third sector in response to the 2017 Grenfell Tower disaster. *Mind the Gap: A Review of the Voluntary Sector Response to the Grenfell Tragedy*, found many voluntary organisations, however ill-prepared, stepped up to the challenge of meeting the needs of the affected community, where statutory authorities fell short, especially in the early stages. However, the report found that the consequences of the tragedy, which left 72 people dead and hundreds homeless, were "compounded by weak leadership".

80% OF CHARITIES NEED TO REVISIT DIGITAL STRATEGY

Eight in 10 charity leaders acknowledge they need to advance the pace of digital change within their organisation, new research has revealed. According to *Engineers for change: Why finance teams must drive the digital agenda*, published by Charity Finance Group and Eduserv, 60 per cent of charities are successfully implementing a digital strategy, but over 80 percent said they would benefit from rethinking the approach they have to a digital transformation. The research further highlighted that charities could increase the effectiveness of their plans by involving finance professionals earlier in strategy development and more closely in their delivery.

COMPREHENSIVE REVIEW INTO LEGACY GIVING PUBLISHED FOR CHARITIES

A comprehensive literature review into legacy giving has been published to help charities and fundraisers wanting to make the most of the income source. The new review, published by Legacy Voice, encompasses fundraising, psychology, psychiatry and behavioural economics. It pulls together over 160 previously published research papers into one review of why and how donors leave gifts to charity in their wills. The report examines the area of will-making, the major motivations to leave a gift to charity in a will, the influence of charity communications and the importance of ongoing stewardship.

"Just as a good board has a treasurer, it should also have a digital trustee, who's responsible for insuring everybody in the board understands what is happening."

CIVIL SOCIETY STRATEGY NEEDS 'BIGGEST SHAKE-UP' SINCE VICTORIAN AGE, SAYS CFG

The government's new civil society strategy needs to incorporate "the biggest shake-up of charity tax since the Victorian age", Charity Finance Group has said. In a written submission to the Office for Civil Society, CFG called on the government to ensure its new civil society strategy is updated to ensure many of the structures that support charities, particularly around tax, are fit for the 21st Century. CFG urged the government to ignore traditional 'micro-level' initiatives and piecemeal funding programmes, and instead fundamentally "shake-up" the support for charities across tax, regulation, commissioning/procurement and skills and capacity building.

TRACEY CROUCH: CHARITIES' SUCCESS UNDER DIGITAL PRESSURES TOP OF GOVT AGENDA

Ensuring charities thrive in the 21st Century amidst the rapid acceleration of new technologies is at the top of the government's agenda, Civil Society Minister Tracey Crouch has said. Speaking at the Charity Finance Group Annual Conference in London, Crouch said ensuring charities are able to succeed in a time when "we're simultaneously all connected, but feel less connection with each other," is at the heart of the government's mission. "With the right people driving it, technology can transport our world for the better," she said to charity finance professionals at Westminster.

NSPCC GARDEN WINS GOLD MEDAL AT RHS CHELSEA FLOWER SHOW

The Morgan Stanley garden for the NSPCC at this year's Chelsea Flower Show received a gold medal. The design of the garden was intended to act as a metaphor for the emotional journey that a child undertakes as they experience the positive impact of the NSPCC's work. This year's garden was designed by Chris Beardshaw, who is celebrating 20 years of exhibiting show gardens.

CHARITY LEADERS CALL FOR 'FUNDAMENTAL REASSESSMENT' OF GOVT'S RELATIONSHIP WITH SECTOR

Charity leaders have written to Civil Society Minister Tracey Crouch, calling for a strategy that "fundamentally reassesses" how the government works with the sector. In a letter written to Tracey Crouch, civil society leaders such as Charity Finance Group, Children England, Directory of Social Change, the Institute of Fundraising and ACEVO, said the government must ensure its new strategy allows for its relationship with the sector to "move beyond transactional relationships".Instead, the coalition argued the relationship must build understanding, trust and respect and inform better decision-making and to ensure people can access the support they need.

ZOE AMAR: WHERE WAS THE CHARITY RESPONSE TO THE FACEBOOK DATA SCANDAL?

There were a distinct lack of charity voices present in the response to the Facebook/Cambridge Analytica data scandal earlier this year, digital expert Zoe Amar has said. Speaking at the Charity Finance Group Annual Conference 2018, Amar said charity voices have been "absent from the table" in responding to digital trends and scandals affecting some of the technology platforms charities commonly use. Amar added that one of the biggest digital trends of the year is artificial intelligence, but that she would "like us, as a sector, to think more about our role in that," Amar said. "Charity voices have been absent at the table and there's so many issues surrounding the ethics of emerging technology that really bother me.

DCS REVEALS TOOLKIT TO MONITOR CHARITY COMMISSION'S POLITICAL INDEPENDENCE

The Directory of Social Change has unveiled a new toolkit, designed to question and monitor the Charity Commission's political independence. The new toolkit, *Three Pillars of Independence*, published today by the DSC, follows widely-held concerns about the political bias of former-Charity Commission chair William Shawcross and the subsequent appointment process of his replacement, Baroness Stowell. Stowell was appointed against the unanimous advice of a parliamentary scrutiny committee and leading charities, calling for questioning over the impartiality of regulatory appointments.

75% OF INSIDER FRAUDS ENABLED BY "EXCESSIVE TRUST" WITHIN CHARITIES, SAYS COMMISSION

Almost 75 per cent of insider frauds at charities are facilitated by "excessive trust" and a "lack of challenge" from people working within the charity, the Charity Commission has warned. A study by the Commission highlighted that a number of cultural factors,

such as placing excessive trust or responsibility in employees, or failing to thoroughly challenge individuals, contributed to 70 per cent of insider frauds within charities. In response to the results, the Charity Commission urged charities to encourage staff not to "turn a blind eye" to fraud.

BARONESS BARKER: A 'DIGITAL TRUSTEE' IS JUST AS IMPORTANT AS A TREASURER

Every charity needs a digital trustee on its board, in the same way it needs a treasurer, Baroness Barker has said. Speaking at the *Charity Times Annual Conference*, the Lords spokesperson for the voluntary sector said: "Just as a good board has a treasurer, it should also have a good digital trustee, who's responsible for insuring everybody in the board understands what is happening." Barker, who has worked as a member of the select committee on the future of charities, drew reference to the Digital Skills Report, stating: "If you haven't read it, then I suggest you do, because all charities are going to have to deal with digitisation of some, if not all of, what they do. And it's difficult."

Revealed: the charities CEOs believe should merge to form 'mega-charities'

CHARITY LEADERS HAVE RECCOMENDED A NUMBER OF THE LARGEST CHARITIES MERGE TO FORM SO-CALLED 'MEGA CHARITIES' TO CREATE LEADING CHARITIES THAT DRIVER GREATER IMPACT.

WRITTEN BY: LAUREN WEYMOUTH

New research has revealed a list of charities that chief executives from across the sector think should merge to form "mega-charities".

The research, published by Firetail and based on the responses of 39 charity leaders at chief executive and senior level, highlighted the need for mergers among some of the biggest charities in order to create "category-leading" charities that could "drive greater impact" across the sector.

Children & young people, international development and disability were noted as the top areas for consolidation. Furthermore, a large move among one or more of the biggest children's charities (NSPCC, Action for Children, Barnardo's and the Children's Society) was most frequently mentioned.

Firetail's research follows extensive talk among the sector about the growing lack of charity mergers, despite there being an overwhelming number of charities in the UK.

Chief executives said they consider some of the main barriers for consolidation to be cultural and internal; 59 per cent said "staff resistance" is one of the major obstacles standing in the way of mergers, as well as "trustee resistance" (49 per cent).

The cost of exploring merger opportunities was also noted as a concern among many charities, alongside structural barriers, such as a lack of merger opportunities, resistance from funders or restrictions in governing documents.

However, respondents identified 29 specific mergers they thought should be seriously considered among the sector. Although the precise combinations differed, cancer charities and children's charities remained the most frequently identified as merger candidates.

In most cases, chief executives recommended mergers of organisations with similar beneficiary groups, which would help to create stronger organisations within their sector.

Respondents said a "mega-merger" among the biggest children's charities would be "powerful and benefit funders, clients and be a stronger voice to government".

"The principle benefits [of merging cancer charities] would be a reduced cost base, more spend for front line activity, great advocacy weight, working capital freed up from reserves," a respondent said.

The full list of charities

- Action for Children and Barnardo's
- Action for Children and NSPCC
- Bloodwise and Anthony Nolan
- Carers Trust and Carers UK
- Comic Relief and Children in Need
- Crisis and Shelter
- Cancer Research UK and 250+ new cancer charities
- Epilepsy Society and Epilepsy Action, Epilepsy Research UK
- Hope and Homes for Children and Lumos
- Macmillan Cancer Support and Cancer Research UK
- Macmillan Cancer Support and Marie Curie
- Meningitis Research Foundation and Meningitis Now
- Migrant Voice and Migrants Rights Network or JCWI
- Migrants Rights Network and JCWI
- Military (most) and Military (most)
- One and Global Citizen
- Ovacome and Ovarian Cancer Action
- Oxfam and ActionAid
- Pancreatic Cancer Charities and 72 other pancreatic cancer charities
- Refugee Council and Refugee Action
- Restless Development and YMCA
- RNIB and Guide Dogs
- SafeLives and Women's Aid
- SANE and Rethink Mental Illness
- Teach First and Ambition School Leadership
- Teenage Cancer Trust and CLIC Sargent
- The Brain Tumour Charity and Brain Tumour Research
- Turning Point and Addaction
- Youth United and Step Up To Serve

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People on the move...

The latest appointments from around the charity sector

If you have any appointments to announce please contact lauren.weymouth@charitytimes.com

RT HON DOUGLAS ALEXANDER

Douglas Alexander, former Secretary of State for International Development and UK Governor to the World Bank, has been appointed as chair of the board of trustees of **Unicef UK**. He will take over from current chair Ilse Howling, who will complete her final term on the board this summer. His appointment has been endorsed by Unicef UK's trustees.

MADDIE DINWOODIE

Maddie Dinwoodie has been appointed deputy CEO and director of **Youth Work at UK Youth**. Dinwoodie joined UK Youth in 2015 as director of national programmes and has over 14 years' experience in the charity and youth sectors. In the role of director of national programmes, Maddie transformed UK Youth's programmatic delivery.

OLIVIA AMARTEY

Elim Pentecostal Church has appointed Olivia Amartey, former senior leader in the NHS and deputy chief officer, operations, Sandwell and West Birmingham Clinical Commissioning Group, as the charity's new executive director. She is an ordained Elim Minister with extensive leadership experience in the NHS, the Anglican Church and the third sector.

EMMA THOMAS

YoungMinds has appointed Emma Thomas as its new chief executive. She is currently a consultant working within the charity sector. Her work has included support for a range of charities such as Barnado's, YMCA, London Youth and VInspired and included a number projects focussing on wellbeing and mental health support for young people.

DR NEIL EBENEZER

Fight for Sight has appointed Dr Neil Ebenezer as the charity's new director of research, policy and innovation. He will lead the charity's programme of developing solutions for those who are or may be affected by sight loss. Prior to this, he was head of science and innovation at the Department of Transport and has a PHD from the UCL Institute of Ophthalmology.

Charity
Appointments

PAUL ATKINSON

Motability, the national disability charity, has appointed Paul Atkinson CBE to the role of director. He replaces Declan O'Mahony who stepped down after 16 years in the role. Atkinson joins the charity following a varied career in the Royal Air Force, encompassing operational and leadership roles in air operations, collective training and air defence.

LAURA HAWKESFORD

CARE International UK has appointed Laura Hawkesford as head of the private sector engagement team. Hawkesford brings a wealth of private sector and NGO experience to the role. For the past four years she has held the position of ethical trading manager at Marks and Spencer. During this time she worked closely with CARE, on the Halow+ programme.

EMMA MALCOM

Leading national sight loss charity, the **Macular Society** has appointed Emma Malcolm as its first director of fundraising. She joins the charity from Rethink Mental Illness where she was associate director for fundraising and supporter engagement. She began her career with the Royal Academy of Music and has also held senior positions with a number of charities.

CHRIS SHERWOOD

The **RSPCA** has appointed the former CEO of Relate, Chris Sherwood, as its new chief executive officer. Sherwood, who has been CEO of the relationship charity since 2015, will take up his new post with the RSPCA on 1 August 2018. He has 15 years' experience of working in the third sector and joined Relate as director of policy, communications and digital services in 2012.

ANNA LASZLO

Tearfund, the international relief and development charity, has announced the appointment of Anna Laszlo as the new chair, replacing Clive Mather. With a wealth of experience in international development, Laszlo joins having served as chair of the World Vision UK Board for the past three years, and on its board for ten years.

CARLA OWEN

Carla Owen has been appointed the new CEO of **Animal Free Research**. She joins the charity after 10 years at Cruelty Free International. Owen was its director of development, marketing and communications, where she led the development of a new brand, a high profile partnership with The Body Shop and facilitated a digital transformation programme.

Regulation

THE CIVIL SOCIETY STRATEGY MUST AVOID HALF MEASURES

CARON BRADSHAW IS CHIEF EXECUTIVE OFFICER OF THE CHARITY FINANCE GROUP

I am writing this in the wake of our very successful annual conference held once again in London at the QEII Centre. The conference was excellently received and we were glad to be joined by the Minister for Civil Society, Tracey Crouch, who spoke about the government's new civil society strategy.

We have been here before, of course. Perhaps I am showing my age, but I remember the former charities minister, Nick Hurd, speaking at CFG's conference, and other sector events, with similar language about the desire to re-set the relationship between government and charities.

Nick was a great minister and a great champion, and we have noticed in recent years how much we need that kind of positive voice within government. So, I was delighted to hear how Tracey respected the voice of our sector, how she wanted government to recognise the value of charities and how she wanted her new strategy to lay out a bold vision for the future.

The government is right to put forward a strategy to support civil society and charities are the key component of civil society. There has been a lot of focus on re-building our economy after the financial crash, but focusing on economy is lopsided. We need a strong society as much as we need a strong economy if we are going to realise the kind of future we need.

As you would expect, CFG has been heavily involved in advising government on what this strategy should look like. We have attended a number of roundtables and briefings with officials and ministers on the strategy.

The government has said the civil society strategy should be seen as the counterpart to the government's industrial strategy and I concur.

However, throughout the engagement exercise, there has been an undertone from the government that although it is "ambitious" for our sector, there is no money around to deliver the strategy. The industrial strategy by contrast has been backed up by tens of billions in government spending through the creation of new investment funds and tax breaks.

Although we have a positive case for our sector being consistently put forward by ministers, we must not suddenly forget that warm words are not enough on their own. We need policies to be backed up with investment, if they are going to succeed.

CFG has made clear in its submission that we need investment in the sector through fundamental reform of our tax system, our regulatory infrastructure, investing in skills and development and through reform to public service commissioning. These will also cost money if they are to be done correctly. But we would argue that the return on investment for government is significant.

CFG has argued that if the government is serious about making our communities better places to live, about engaging more people in our democracy and society and creating new partnerships between businesses and charities, then it needs to see a growing charity sector. More financially resilient charities will naturally create these outcomes, in the same way that government believes backing business creates jobs and higher tax revenues.

The government doesn't need to direct our sector; it just needs to create the conditions for growth. We see these as an effective tax system, effective regulation, investment in financial skills to support good management and reform to the way that government procures from charities.

Under the Victorians, we saw the emergence of many of the defining features of our sector, from the Charity Commission to the creation of endowed foundations to formal tax breaks for charities. They recognised that by creating the right conditions for charity, that it would grow and leave a positive impact beginning a virtuous circle.

We need the government to take a similar approach. Nothing that is worth doing is cheap, easy or quick. But if the government has the patience, has the willingness to invest and a positive vision, this strategy could leave a lasting legacy. ■

Fundraising

FUNDRAISING IS A GLOBAL COMMUNITY

At the beginning of July, the biggest fundraising event of the year in Europe will take place. Around 2,500 fundraisers will descend on the Barbican, London, to take part, learn about and celebrate excellent fundraising.

It's a fantastic three days where I get to meet hundreds of our members and hear their stories, but my favourite part is the feeling of community and togetherness that flows throughout. In my time at the IoF, I've always been bowled over by the collective spirit and enthusiasm of the fundraising community, the support they offer each other, the willingness to share, and the belief that through our collective endeavour, we will be able to do more for all of our causes.

This spirit of community and collaboration in fundraising is found at every level – in every region of the country, in every fundraising discipline and throughout the UK. But it also goes across borders and around the world. We partner with national fundraising associations across the world, which are working similarly with charities and fundraisers to help raise standards and develop fundraising skills, supported by networks such as the Association of Fundraising Professionals in North America and Mexico, and the European Fundraising Association nearer to home. And I'm really looking forward to welcoming many of them to London in early July for the International Fundraising Summit.

Last year's event was hosted by the AFP in San Francisco and there were fantastic opportunities to share and learn from fundraisers across the world. While of course there will always be issues specific to individual countries – for example, regulatory systems will be different – I've always found there is more that unites us than divides us. Public trust and confidence, the challenges and opportunities of technology, and the diversity and skills of the fundraising workforce are common issues that affect fundraisers from around the world. And undoubtedly, the best way of working to meet the challenges we face is to do so together.

At the summit in July, we will agree a revised and refreshed 'International Statement of Ethical Principles in Fundraising'. This is an important symbol of international cooperation, as well as recognition that wherever fundraising takes place and supporters are asked for money, it should always happen to a high standard and according to ethical principles. From my point of view, it roots the UK Fundraising community, our professional skills and practices, in a wider international context, creates solidarity through a coming together of professionals and professional bodies who jointly agree and champion excellent fundraising and philanthropy, and is an important marker in demonstrating how seriously fundraisers take the issue of ethical practice not just here, but around the world.

The International Summit is also an opportunity to look around the world at examples of great fundraising and innovation. The fundraising efforts of the American Civil Liberties Union (ACLU) and Bernie Saunders have been hugely impressive as they respond to a challenging domestic political environment, while in CAF's latest research Africa is the only continent to see an increase in all charitable and giving behaviours. At a time when the world seems to be more divided than ever, it is even more critical that civil society stands together. And the fundraising community is an important part of that.

The work of many of our members often goes beyond and across national borders, and it is often the only support for people and communities that is there before, during and after huge convulsions. But those organisations, providing that support and representation, can only survive due to the work of the fundraising community around the world. I'm proud that IoF is playing its part in that, supporting fundraisers around the world. I look forward to welcoming our international guests and am sure that by working together we can better meet the challenges we face. ■

PETER LEWIS IS CHIEF EXECUTIVE OF THE INSTITUTE OF FUNDRAISING

Reporting

THE EXPECTATIONS OF AUDITORS ARE INCREASING

GILLIAN MCKAY IS THE HEAD OF CHARITIES AND VOLUNTARY SECTOR AT THE ICAEW

Auditors are seen by the public, and increasingly by charity regulators, as a group who are party to information that would be of interest to them. The recent media interest in certain charity cases has led to a decrease in public confidence in the charity sector. In order to address this, the Charity Commission is increasing the pressure on auditors to report matters they find in the course of their filed work.

Auditors have an existing statutory requirement to report on matters of material significance, although auditors are not required to do further work to find these matters, they are required to consider whether any further matters may also be reportable as a discretionary matter. In addition, they are also required to report to the regulator any serious incidents that have occurred at the charity, even if all of these have been reported by the trustees.

There may be a misperception between what the Commission believes an audit entails, and indeed what it is there to do.

The aim of an audit is to determine whether the financial statements have been materially misstated. It is not the purpose of an audit to detect fraud or matters of operational non-compliance, except to the degree by which such non-compliance may have an impact on the financial statements.

Audit materiality is the degree of error in the recording of a financial transaction or balance, which can be tolerated before it could reasonably be expected to influence the opinion of a reader of the accounts. It is not an absolute measurement as it involves an assessment of risk.

The level of materiality will direct the amount of transactions and documents that are reviewed in the audit testing. It is not the case that an audit tests every transaction or reviews every document. To do so would make the operation of an audit, and its cost, completely unwieldy and impractical and it would be no more likely to detect misstatement than would a well-planned audit.

The Commission is repeating its call for auditors to consider whether there is more they could be reporting, which would be of relevance to the Commission's compliance work. However, the auditor engages with the charity as their client and the audit engagement is with the client, not with any third party, including a regulator. Auditors have no requirement to gather information other than that which provides evidence to arrive at their audit opinion. This may mean a matter that may have been of interest to a regulator may be over-looked, but this in itself does not mean the audit was a bad audit.

Of course looking at cases such as Oxfam, there have arisen matters which may not have impacted materially on the accounts at the time but have now resulted in such a large reputational risk, which has had an impact on the charity's income.

In Oxfam's case, that matter arose seven years ago, which demonstrates how hard it is to predict future impact.

Furthermore, the range and breadth of what could have an impact is extremely wide. Recent examples of reputational risk have included commercial contract in a trading subsidiary, investments in certain companies not considered by the media as "ethical", fraud and theft by staff, the behaviour of a grantee following the award of a grant and the behaviour of a fundraising team. The range of possible threats to reputation is so wide to render reporting on potential risk to reputation is almost unmanageable.

As the Commission continues to feel a funding squeeze, it seems to expect more from the audit profession to detect information relevant to its work. However, what the Commission is interested in may also not be the concern of an auditor. There seem to be high stakes of detection expected of the work of auditors and these may have very little to do with what the auditor is required to do to reach their conclusion that the accounts are not materially misstated. ■

Property

TALKING TO A BRICK WALL

It is a tough business trying to keep a charity going these days. We are treated just as any small or medium sized business and yet we must juggle even more layers of regulation.

Yes, we have tax breaks, but to give one example, how many staff hours did it take for you to hit the GDPR deadline in May? No, we didn't earn a penny piece while we were working on it either. All good, necessary and compliant but it takes up so much front-line time.

Readers will know that my organisation provides property advice to charities. In marketing terms, this is obviously neither exciting nor photogenic. We do not, directly anyway, help babies, animals and artists, but we are the people who advise and reassure the trustees, CEOs and volunteers who do. They come to us worried sick about leases, moving offices, dealing with landlords or just trying to work out how to buy a building. We provide consultancy services such as health checks and property strategies, but we are very proud to be the only UK charity where any non-profit can come in off the street and receive expert and independent property advice free at the point of access – whether legal or maintenance.

Our free advice is no longer grant-funded outside London, so it is a real balancing act to provide it. We are therefore increasingly moving towards property education, so that we can do more with less – like many of you. But the need for tailored advice remains huge and constant: indeed, I would say anxiety about property management is growing as charities become less sheltered by benign local authority landlords.

Every six months the Ethical Property Foundation runs a client survey. The results to May 2018 of our 104 client organisations are revealing not least for underlining the reality that property is the second most important means of delivering social mission after people.

Our goal is to build property knowledge and confidence within our sector so we were cheered that 57% found our online resources library useful, and that 75% of respondents rated their property knowledge and understanding as high or very high after receiving our advice – as opposed to just 10% before. Over 90% of the 21% which responded were very satisfied/satisfied with our support and indirectly our property advice benefited £1.59 million people.

However, what made me sit up, was that 73% of our respondents that rated critical or serious the risk their property issues were to their organisation's operations and long-term viability. Nearly three quarters. Crucially too, 40% of our clients felt that avoiding insolvency was the key benefit in seeking our advice. In other words, our property advice stopped them going bust. What does this say about how late in the day it is, before voluntary organisations seek advice? And God help those now haunting the Job Centre who did not reach us in time.

I am thinking of writing to the funders of those charities, which we saved from insolvency, and while maintaining client anonymity, letting them know that we supported a grant holder from going bankrupt. I will ask them please to consider providing some element of property education or core funding in their grant making. It is vital that funders understand the role of good property management is crucial to a thriving charity. Perhaps it is a bit personal: the Ethical Property Foundation has just been turned down by a major grant funder for 'not being relevant to their mission'. In 2017, we saved two of their grant holders from insolvency – a tad galling because without us, they would have been unsecured creditors of a combined sum well into six figures.

As low interest rates persist, funders are doing their best with reduced funds – but I do question the preponderance of project funding without any element of core funding for property maintenance.

I know I am talking to a brick wall on this one, but from where I sit, when the phone rings and I listen to the stress in the voice at the other end, it is impossible to stay silent. For more information visit ethicalproperty.org.uk. ■

ANTONIA SWINSON IS CHIEF EXECUTIVE OF THE ETHICAL PROPERTY FOUNDTION

Profile: Meryl Davies

Tea and kindness

CONTACT THE ELDERLY CEO MERYL DAVIES TELLS DAVID ADAMS ABOUT ONLY RECENTLY LEARNING OF THE CHARITY AND HOW ORGANISATIONS CAN ACHIEVE A GREAT DEAL BY USING SIMPLE METHODS.

Some of the organisations featured in *Charity Times* do truly extraordinary things: funding medical breakthroughs, helping people in desperate situations in the UK and elsewhere, or creating new infrastructure to help give young people a chance of a better future, for example. But there are also charities that achieve a great deal by using much simpler methods. One of said charities is Contact the Elderly, an organisation that helps isolated older people to meet regularly and make new friends, through its network of volunteers who host monthly tea parties for older people on Sundays. By doing so it makes a positive difference to the lives of thousands of people.

Although it does not have a particularly high profile, anyone who has been involved with the charity will probably have warm feelings towards it. I know I do: my parents hosted meetings for the charity in the 1970s and 1980s – and my mother is now doing so once more, 40 years on. Anyone with friends or relatives who have benefitted directly from its work will feel very grateful. But if you have never heard of the charity, don't feel too bad about it, because you are in good company – until just a few months ago, its new CEO, Meryl Davies, didn't know about it either.

Davies can be forgiven for this, because although she has extensive experience of working in this sector, the organisations for which she has worked focused on quite different beneficiaries. From 2003 to 2010, she worked in a fundraising role for Lucy Cavendish College at the University of Cambridge: a college that only admits mature students or postgraduates. As head of development, Davies launched major gifts and legacy programmes. She says working with the college brought home to her the idea that it is always possible to do new things in life, making new friendships and taking advantage of new opportunities.

She then worked as director of fundraising for SOS Children's Villages UK, part of a network of charities that helps unsupported children in 125 countries around the world, later becoming its global partnerships manager. In late 2013 she took up a new role as UK National Director of another global NGO, Right to Play, which helps children affected by poverty, disease and war to access and stay in education.

Davies was also working towards a MSc in NGO Management at the Cass Business School. With this qualification under her belt, in November 2015 she was appointed CEO of the housing charity Habitat for Humanity Great Britain, remaining in post until April 2018, helping people in many different countries around the world who live in slums or

"SHE CANDIDLY ADMITS SHE KNEW VERY LITTLE ABOUT [THE CHARITY] BEFORE SHE HAD THE OPPORTUNITY TO BECOME ITS CHIEF EXECUTIVE."

substandard housing. She is very proud of the work she did there, helping to build a diverse leadership team from which her deputy was promoted to replace her.

But during this period, Davies and her family moved from Cambridge to South London, into a multicultural environment she says they all love. She began to wish she was working for an organisation that made more of an impact in the UK, so that it was easier to see the benefit of its work first-hand.

She candidly admits she knew very little about Contact the Elderly before she had the opportunity to apply to become its chief executive. But she was immediately captivated by the simplicity and effectiveness of its work.

The organisation was founded in 1965 by Trevor Lyttleton MBE, who had discovered there were a large number of isolated elderly people living in London and wanted to bring them together. He has said that he received a Christmas card from an elderly lady who had become a member of one of the first groups saying: 'At last I have something to live for!'

The charity now runs more than 800 groups across the UK. About 11,000 volunteers work with them, hosting the monthly meetings for more than 6,000 older people, with some volunteers also driving the older people from their homes to and from the venue. Most of the older people who attend the tea parties are aged between 80 and 100; and some have mobility issues, or hearing or visual impairments that make it difficult for them to leave their homes without assistance, increasing their isolation.

Drivers are encouraged to transport the same people to each meeting. "That's a critical relationship," says Davies. "So you know who's picking you up. The driver will take you to the gathering and then you can make new connections and friends there." The groups are deliberately kept fairly small, to help people

make friends as they see the same people at each event.

Contact the Elderly has been affected by many of the same issues that have created problems for all charities in recent years, around funding, for example, but Davies says that slow but steady growth has continued during the past ten years, despite difficult financial conditions.

"The organisation has continued to diversify its funding sources, without over-diversifying," she says. "As a small organisation you have to be fairly focused. You can't have all the fundraising streams going when you've only got a small fundraising staff." It also benefitted from a boost to its finances and volunteer

numbers during its 50th anniversary year in 2015; and from an appearance on the Channel 5 TV show *Do the Right Thing* in March 2018.

Although in some ways this is an organisation that faces a lighter regulatory burden than some charities, the fact that its volunteers work with very vulnerable people means that some issues, such as the need to ensure all possible safeguarding measures have been taken in relation to volunteers, are at the heart of its processes.

The charity also works very closely with other organisations that aim to help reduce social and health problems related to loneliness and isolation, including The Silver Line, the Campaign To End Loneliness; and the Jo Cox Foundation. Davies hopes these partnerships will help the organisation to broaden its reach and create referral networks, so that it can help more isolated people, in every community. She says she is also hugely impressed by the charity's small but diverse team.

Loneliness is a much-discussed topic at present and Davies thinks this is a crucial moment for organisations working to reduce it, because the charities minister Tracey Crouch has also been named as the minister for loneliness. Contact the Elderly is working with the Loneliness Action Group (led by the Co-op and the Red Cross) to advise the minister on these issues.

Outside the organisation, Davies believes she will gain a valuable extra perspective from her role as a trustee of another charity, Young Minds, which aims to improve mental health among young people. Having joined the trustee board there in January, one of her first duties was to help recruit a new CEO for Young Minds, Emma Thomas, who takes up the role in July. Davies says she is looking forward to being able to work with another new CEO as she continues to settle into her own role.

Her professional and home life in London now feel a long way from her childhood in rural Shropshire – although she points out that she was then part of a multigenerational household, with her grandfather living in the family home. "I certainly didn't think then that one day I'd be sitting in central London running a charity for older people – but I'm very glad I am," she says.

She believes part of the reason Contact the Elderly has been so successful is that its work is, in a way, relevant to everyone. We all hope we will be fortunate enough to grow old; all of us know or have known older people whose lives we would want to be as enjoyable as possible.

"We've all got an old person that we've cared about and we wouldn't want them to be isolated," says Davies. "That's the power of this organisation: it's fantastically simple and fantastically important. We just want to make sure we can take what we do to as many people as possible." ■

COVER STORY

Trust issues

The government is longing for a 'shared vital mission' with the third sector. But is the lack of trust and tightening of regulation causing a more obvious divide? WRITTEN BY BECKY SLACK

New rules and regulations have flooded into the charity sector recently. Since 2016, charities up and down the country have been trying not to get swept away by the barrage of guidelines, standards, principles, behaviours, sections and sub-sections being enforced on them.

Driven in part by the powerful influence of the media, the list has included an updated Charities (Protection and Social Investment) Act; the Governance Code; the introduction of a new fundraising Code of Practice, Fundraising Regulator and Fundraising Preference Service; and, of course, GDPR. Add to this monitoring the potential impact of Brexit, negotiating ways around the Lobbying Act, preparation for the forthcoming safeguarding code (currently being written by Dame Mary Marsh) and getting to know the new leadership at the Charity Commission, and things have been somewhat busy.

And for most charities, 'busy' has translated into 'expensive'. Understanding and implementing all of this has come with substantial administrative and financial burden.

"The sheer volume of information and guidance that trustees and staff have had to wade through is a barrier to compliance and unnecessarily bureaucratic", Simon Francis, chair of the PR and Communication Association's Charity and Not-for-Profit Group says.

Pauline Broomhead, chief executive at the Foundation for Social Improvement agrees, emphasising the fact that while small charities have responded appropriately and proportionately, they "don't have access to significant resources with which to manage change, especially as the demand for their services has increased by an astonishing 134 per cent since June 2013."

Tom Murdoch, a partner in the charity & social enterprise team at Stone King, provides another example, citing one of his clients – an organisation he describes as already very careful with data, fundraising and the safeguarding of its beneficiaries – as being "horrified when they had all of these extra regulations to respond to. They are still quantifying the cost of it all".

Meanwhile, an anonymous charity explains: "I estimate it has cost us in the region of six figures, in both legal advice and staff time – money that we would rather have spent on our charitable purposes. Multiply that across the sector and that's a whole lot of resource that has been spent by already very-stretched organisations. Let's hope it's all worth it."

The government believes it is. At the heart of the decisions to tighten up the rules, they say, is trust. Without trust, the charity sector cannot operate. And the best way to protect trust is through regulation.

Indeed, it was trust that was the focus of the first speech made by Baroness Stowell to the sector after her appointment as the new chair of the Charity Commission. Referencing the "sobering" findings of new research that, at the time of writing had not yet been published, she said people's experiences mean they "trust charities no more than they trust the average stranger they meet on the street."

"Whatever the failing, it adds up to people seeing and believing that those in charge of important institutions are running them in their own interests, for their own benefit," she said.

While Baroness Stowell was clearly – and rightly – referencing poor behaviour and decision-making within the charity sector, such as that displayed by Oxfam's leadership regarding the safeguarding cover-up or one of the 13 charities fined by the ICO for mis-use of supporter data, it's important to also view this within the context of wider society.

Over recent years, the general public has been repeatedly let down by large, powerful organisations and institutions – many of which never seem to be "punished" for their actions. The long list of examples includes, but is not limited to, MP's expenses, media phone-hacking, the banking crisis, the Libor scandal, Facebook's dalliances with Cambridge Analytica – the list goes on. But with so many examples of mis-use and abuse of power by supposedly "trusted" people and organisations, is it any wonder that the public is so suspicious of everyone and everything?

The impact of all of this on the sector is still not entirely clear. As the CFG/University of Kent report, What Regulation, Who Pays? Public Attitudes to Charity Regulation in England and Wales, outlined, people only give when they feel confident their donations or time will be used wisely – confidence which the report says is maintained by effective regulation.

However, giving levels remain strong – CAF's UK Giving Report 2018 shows no major fluctuations in giving, for example.

And when it comes to trust, while Baroness Stowell hinted that the Charity Commission's research identified some disturbing trends in the wrong direction, nfpSynergy, which has been tracking trust for more than 15 years, thinks charities are the third most trusted public institution after the NHS and Armed Forces. Additionally, it revealed trust in charities rose by nearly four percentage points between Autumn 2016 and May 2017.

History repeats itself

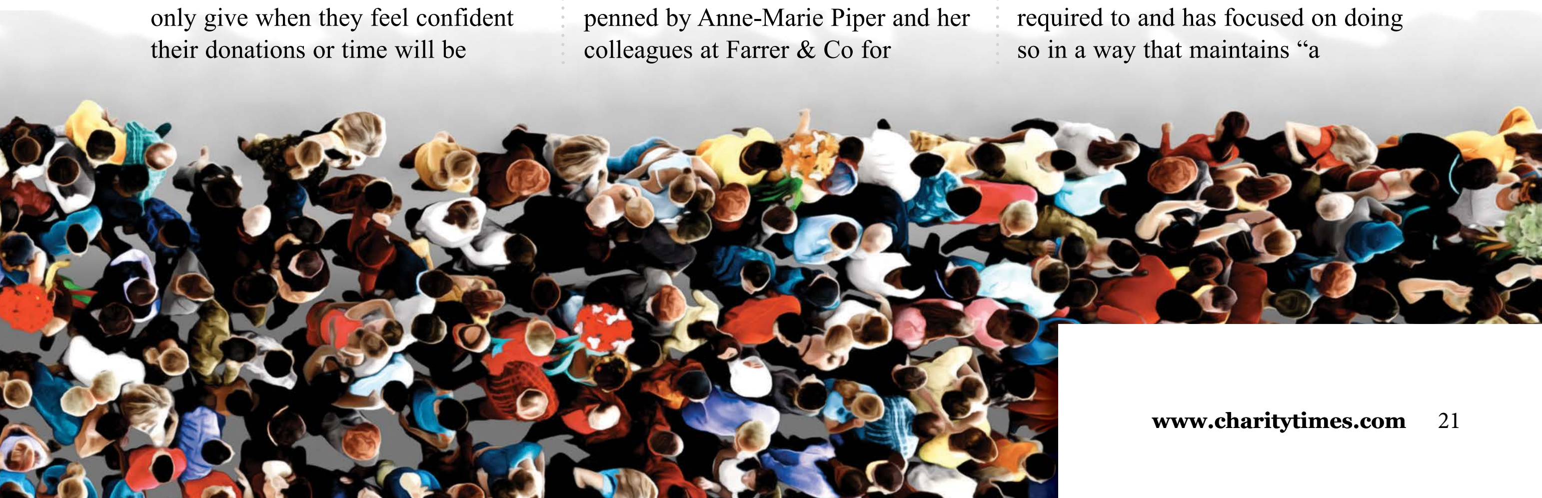
Increased regulation due to concerns about charity operations is nothing new. Since charitable status was first introduced back in medieval times, activities have been mismanaged, donations mis-used and new laws developed in response.

The Statue of Elizabeth, for example, established a commission in 1601 to hear complaints about charities, and "during and following the civil war, the commission became less effective and was eventually replaced by a system whereby a complainant could seek redress through the Attorney General", according to a paper penned by Anne-Marie Piper and her colleagues at Farrer & Co for Thomson Reuters Practical Law.

However, where living memory is concerned, not since the 1990s have so many changes been seen in charity law as they have of late. In 1992 when the Charities Act strengthened the power of the Charity Commission and introduced a new fundraising regime, it was both growth in the sector and concerns of malpractice that were the key drivers – a situation that was not too dissimilar to what happened in 2016 when the Charities Act was updated again (now called the Charities Protection and Social investment Act).

For fundraising though, the government went a step further in 2016 than it did in 1992. The media furore over direct mail and telephone fundraising led to Sir Stuart Etherington's review, which in turn resulted in a new Fundraising Regulator, and much to the horror of many, the introduction of the Fundraising Preference Service. The FPS would kill fundraising, destroy giving levels and generally be a disaster for the sector, shouted many, while the Fundraising Regulator was a politically-motivated initiative that could not be trusted to do what was right for the sector and would cost charities a fortune in fees.

What has actually happened is far less dramatic than that. The Fundraising Regulator has implemented what it has been required to and has focused on doing so in a way that maintains "a



proportionate balance between the duty of charities to raise funds and the needs of the public not to be put under undue pressure to give".

As a result, some 28 per cent of people would now opt out of receiving communications from a charity using the FPS. However, so far just 16,500 people have actually done so – which equates to a tiny percentage of all those who give, much to the relief of fundraisers.

Despite this, the regulator is happy. "We hear regular feedback that we are helping charities create longer term, more sustainable relationships with donors," a spokesperson says.

GDPR

What has the potential to be more impactful on the way in which charities fundraise is GDPR.

Unless you have been living under a rock for the last few months, you won't have escaped the changes to data protection rules, which have strengthened the data rights of EU residents, increased the potential fines organisations face for misusing data, and made it easier for people to discover what information is held about them.

The sector has been preparing for GDPR for some time, indeed long before lots of other industries cottoned on to what was about to hit them. In part this is because the media coverage into data practices and subsequent fines from the ICO has spurred them on, but it is also because – despite the impression that can be given at times – most charities understand how important good data management is.

"The vast majority of organisations were already in a good place," Francis says. "It is testament to how seriously charities treat data that they were well ahead of the game in contacting supporters with any changes to privacy policies that they were making."

Take Demelza Children's Hospice, for example, which has been preparing for these changes for some time: "We set up a project group to go through each stage of the GDPR, updating consent and permissions, training staff and volunteers, and updating all of our processes and policies," Claire Ellis-Waghorn, its deputy director of fundraising explains.

"We've always endeavoured to put our supporters first when it comes to fundraising and have always taken data protection seriously. While it has been a lot of work to make sure that we are compliant with new standards, we are yet to fully understand or appreciate the full implications, something I believe will come as case law comes into place," she adds.

Likewise, at Twining Enterprise where Joanna Lucille Phaure has been busy cleaning the database. "We've always tried to maintain the absolute highest standards in how we manage and store data. I don't want to mail people who do not have an interest in our work and hopefully with our smaller list we will have greater engagement," she says.

Another impact of both the previous fines and the prominence of GDPR is that of changing the culture of data management, with one charity saying: "People still make mistakes with data, but they now own up to them which they wouldn't have done before. We have seen a lot more internal notifications of data breaches be sent to the ICO. It's not because we are doing more things wrong, but because we are more aware of the rules now."

Forewarned is forearmed

Contacting the ICO to let them know about data breaches, both large and small, before complaints are made, is the right thing to do. So too is letting the Charity Commission know if incidents – data-related or otherwise – have occurred that are likely to be picked up more widely, says Murdoch.

"If a journalist phones the Charity Commission asking for a response to an issue that it doesn't know about, it can put them in a difficult spot. People often take liberties with the truth, which can then become the narrative. Whereas if both the commission and the charity in question are on the front foot and informed, they can respond differently, which can help reduce the chance of a crisis developing," he says.

The Charity Commission does need all the help it can get, given the state of its finances. In a story that might be familiar, its budget has been cut by 50 per cent in real terms over the past eight years.

At the same time, the volume of its case work has grown – thus putting Baroness Stowell and her chief executive Helen Stephenson in a somewhat unstable and unenviable position.

Not only is this of detriment to the Commission's staff and their ability to do their jobs well, but it is questionable for the sector as a whole. As CFG pointed out in its recent contribution to the government's civil society strategy consultation, "the risk is that regulation is not invested in and the charity sector is not supported to govern itself effectively. This will undermine its ability to grow and to leverage resources from the public, government and private sector."

CFG highlights the considerable bang for its buck that the government receives in exchange for its investment in the commission and suggests that "even a slight increase" in its budget would result in significant returns – £1,900 for every £1. It's a strong argument indeed, but perhaps a little much to ask of a government that has the tendency to prioritise short-term gain for the few over long-term benefits for wider society (the impact of cuts to policing and youth services being just one example).

Assuming no more money will come, how else can the commission and its charities respond to this? Enhanced communication between the commission and the other sector bodies – including CVS's and local authorities – would be a big help, believes the FSI's Broomhead. Referencing the safeguarding issue as a prime example, she explains how many small charities expressed concern that their voices would not be heard. "The time has come were we need to get together to find a way to communicate with civil society more consistently and effectively."

In short, better partnerships. This is something Baroness Stowell was also keen to encourage in her speech when she referred to "a shared vital mission". The Commission, she said, does not want to be the sector's adversary nor cosy friend, but "a partner".

Coming from a regulator that swung from being critical friend to public enemy number one, these are important words that perhaps indicate a thawing of the chilly relationship between it and the sector. But as Baroness Stowell knows well, to build trust, it's not what you say that counts. It's what you do. ■

OVERVIEW

Leading in difficult times

The 2018 Charity Times Annual Conference set out to provide delegates with insights into how key decision makers can work to lead their charities through difficult times, whilst taking the opportunities that present themselves.

Gathering together at a new venue, the De Vere Grand Connaught Rooms, delegates from across the sector heard from a range of speakers on issues affecting the steady leadership of charities. It quickly became clear that for the charity sector, there is no rest. Brexit looms, reputations are at risk and cyber is an ongoing threat, but charities are still working hard to keep up.

Brexit

During the morning, speakers paid particular attention to one of the key issues causing uncertainty for the future of charities; Brexit. The Royal Society's Julie Maxton addressed some of the issues exiting the European Union is likely to have on the third sector, noting how it's important charities continue to push for investment in science, research and innovation – all of which will be implicated if the UK leaves the EU.

"UK researchers are from around the world," Maxton said. "Research and innovation is increasingly global and the UK's excellence attracts people from around the world, competing with other scientifically excellence nations. Changes to the UK's migration policy may impact on the mobility of researchers from oversea."

On the investment side of the debate, Nandu Patel and Andrew Blair from Rothschild said in light of Brexit, charities need to be prepared to take a long-term view with their investments – well beyond 2019. The duo warned the audience that trustees must be sure to lower their sights and stay away from the assumption that returns have fallen due to Brexit. "Trustees should avoid letting emotions drive their decisions," they said. "Brexit and geopolitical risk are always manageable."

Ethics

Sustainable and ethical investment was also a hot topic at this year's conference. Paul Nicoll from Triodos Bank kicked off the debate around ESG by highlighting some of the ways in which banking through sustainable and socially-beneficial projects can help a charity to advance its overall mission.

"Our mission is to make money work for positive social, environmental and cultural change," he said. Nicoll continued to share examples of some of the organisations and causes a charity's reserves could fund, such as renewable energy, recording studios

and schools – all of which can create direct social impact.

However, while investing and banking with an ethical purpose might seem attractive to charities, many trustees are concerned about the cost of doing so. Addressing delegates in the afternoon, David Palmer from Epworth, explained how trustees can "have their cake and eat it" when it comes to investing in this way.

Palmer argued that it is important to approach ethical investment by conducting detailed proprietary research to identify the best companies to invest in, looking for those with sustainable growth prospects, a strong financial position and a reasonable valuation.

Additionally, he explained it is also important to keep an eye on how other companies are reacting to the likes of climate change – staying clear of those who are failing to do what they say they will.

Reputation

Of course investing in projects and funds that promote social and environmental good can do wonders for a charity's overall reputation – something many charities are battling for following the recent Oxfam scandal.

However, closing the conference, former-CEO of Kids Company, Camila Batmanghelidjh spoke about the collapse of Kids Company, noting how from her experience, reputations aren't quite so easy to control. She explained to delegates how quickly Kids Company fell into administration by "being targeted" and "struggling to survive amidst a climate of such accusations".

"It's frightening that a charity could be damaged on the back of absolute distortions," she said. "You learn as you go along and make mistakes as you go along, but that's what happens with running any company."

Reputational damage can hit charities from a number of different directions. Eliot Rose from PA Consulting explained how failing to make GDPR more than just a 'tick in the box' exercise can also bruise a charity's image, whilst putting beneficiaries in danger.

"For charities, the damage of a personal data breach is not just the legal penalties or the reputational damage, but also in terms of the impact on a particular person's life. A breach of personal data can put somebody who is already vulnerable at risk of harm, financial loss or even blackmail," Rose said.

Technology

But the overarching theme of the day was technology. From fundraising to management, the use of technology is absolutely crucial to the way a charity is perceived by the public and, as speakers stressed

"EVERY TRUSTEE JOINS A BOARD WANTING TO MAKE A POSITIVE DIFFERENCE, BUT SOMETIMES LIFE GETS IN THE WAY."

throughout the day, can be the most useful tool in meeting a charity's overall goal.

Matthew Hodson from aids charity NAM and winner of the Social Media CEO of the Year award, talked about the importance of social media. He advised delegates to follow some simple steps: "Be topical, follow up where helpful, add something to the story, stand up for what you believe in, make it personal and finally, raise the tone, but do not raise the volume."

Speakers Ed Gairdner and Marina Stedman from the Good Exchange also plugged social media among other new methods of technology that can prove to be a great investment for a charity's future.

Stedman highlighted how tools such as Google Adwords are free for charities, as part of the Google for NonProfits programme. She said Google Ad Grants can be used to reach people who are making non-profit/charity-related searches and qualifying non-profits receive $10,000 a month in AdWord advertising.

She also drew reference to tools such as Hootsuite, that can provide the opportunity to manage more than one Twitter account simultaneously, freeing up time and effort for anybody in charge of managing a charity's social media accounts.

Trusteeship

In her keynote speech at the beginning of the day, Baroness Liz Barker said given the need for technological knowledge and experience among charities, it is vital that every charity has a digital trustee on its board, in the same way it has a treasurer.

The Lords spokesperson for the voluntary sector said: "Just as a good board has a treasurer, it should also have a good digital trustee, who's responsible for insuring everybody in the board understands what is happening."

"Charities have a deficit when it comes, in particular, to the skills of digital governance. You might know what you're doing digitally, but I don't necessarily think your boards do," Barker added. "The future is going to be digital and [as a result] charities need a 'digital trustee'."

ICSA's Louise Thomson gave some excellent insights into what is needed to become a successful trustee, explaining the need for greater diversity of experience among trustee boards, which will in turn lead to better decision making.

But Thomson also explained that being a successful trustee also comes from knowing when it is the right time to step down from the role. "Every trustee joins a board wanting to make a positive difference, but sometimes life gets in the way. You will gain more respect from knowing when to step away rather than outstaying your welcome," Thomson told delegates.

The Charity Times Annual Conference will return next May, and more details are to follow. ■

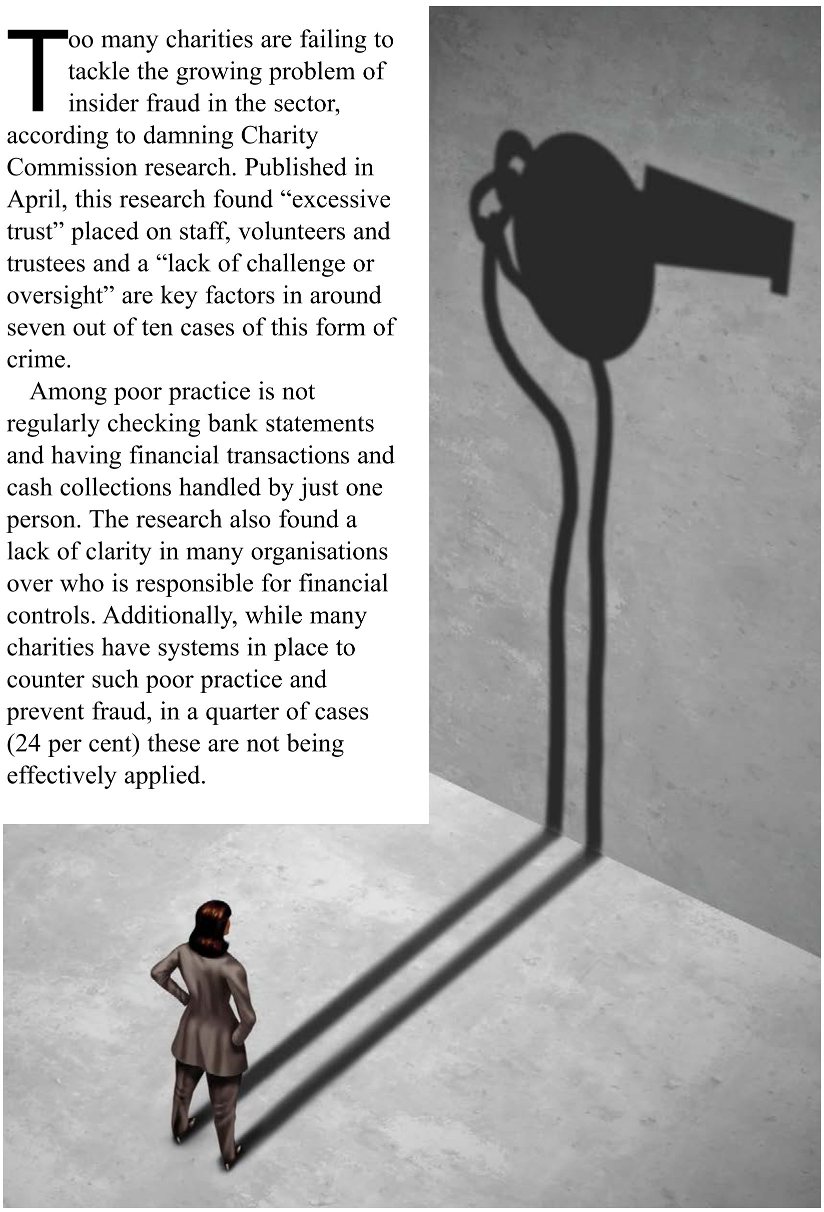
FEATURE

Time to blow the whistle

Insider fraud is on the rise among the charity sector, but encouraging a culture of whistleblowing among charities could be the key to improving sector-wide resilience. WRITTEN BY JOE LEPPER

Too many charities are failing to tackle the growing problem of insider fraud in the sector, according to damning Charity Commission research. Published in April, this research found "excessive trust" placed on staff, volunteers and trustees and a "lack of challenge or oversight" are key factors in around seven out of ten cases of this form of crime.

Among poor practice is not regularly checking bank statements and having financial transactions and cash collections handled by just one person. The research also found a lack of clarity in many organisations over who is responsible for financial controls. Additionally, while many charities have systems in place to counter such poor practice and prevent fraud, in a quarter of cases (24 per cent) these are not being effectively applied.



This particular research also documented how fraudsters can be found across a charity's organisation, most prominently among employees (in 43 per cent of cases), with a third of incidents involving a trustee and in one in ten cases the crime was carried out by a volunteer.

Among the most high profile recent cases involved John Briers, the former chief executive of Age Concern South Tyneside. In May he was found guilty of stealing more than £700,000 from the charity over an eight-year period by paying cheques into his own account.

"It is impossible to point at a particular employee type and say 'definite fraudster'," says Brian Shorten, chairman of the Charities Securities Forum, which represents security professionals in the sector. "Anyone can defraud their employer," he adds, if they have the motivation to steal coupled with the belief that they can get away with it.

The drive to steal

Fraudsters' drive to steal can sometimes be that they think the crime is justified, Shorten explains. For some that is simply that they need the money, others may see it as a loan they plan to pay back, while for some it is out of anger as they have been passed over for promotion, he adds.

Insider fraud

OFTEN THE FRAUDSTER IS THE LAST PERSON YOU WOULD SUSPECT, AND THE FRAUD IS DISCOVERED BY ACCIDENT

As an indication of how badly the sector can be at spotting potential fraudsters, Shorten says that many incidents are only discovered by chance. “Often the fraudster is the last person you would suspect, and the fraud is discovered by accident, for example the fraudster goes on holiday and another member of staff takes over.”

In light of the report’s findings, the regulator issued a stark warning that change is needed in the sector to ensure charities better understand fraud and are able to tackle it. Failure to prevent insider fraud can be devastating, according to the regulator’s research. Not only can it cost vital income, this form of crime can also lower staff morale and in one case a charity had to close as a result.

Andrew O’Brien, the Charity Finance Group’s director of policy and engagement, says charities need to recognise that “it is not a question of if you will be defrauded, it is a question of when”.

O’Brien cites research from accountants Crowe Clark Whitehall in its 2017 Annual Fraud Indicator, which highlights both the scale and growing cost of this form of crime to the sector. The findings revealed charities lost £2.3 billion through fraud last year, up significantly on 2016’s figure of £1.9 billion.

“We are at risk and just because we are charities it doesn’t mean that we are any different to any other business,” he says. “Fraud is everywhere and the Charity Commission is right to focus on the culture change needed.” Once that shift in thinking has taken place, charities can start focusing on a detailed review of their current processes and how they can be altered to better tackle fraud, he adds.

Eliminating risk

Specific advice from Mia Campbell, head of anti-fraud charity Fraud Advisory Panel, is to improve pre-employment screening of all staff and trustees to check that there are no discrepancies in their identity, qualifications and work history.

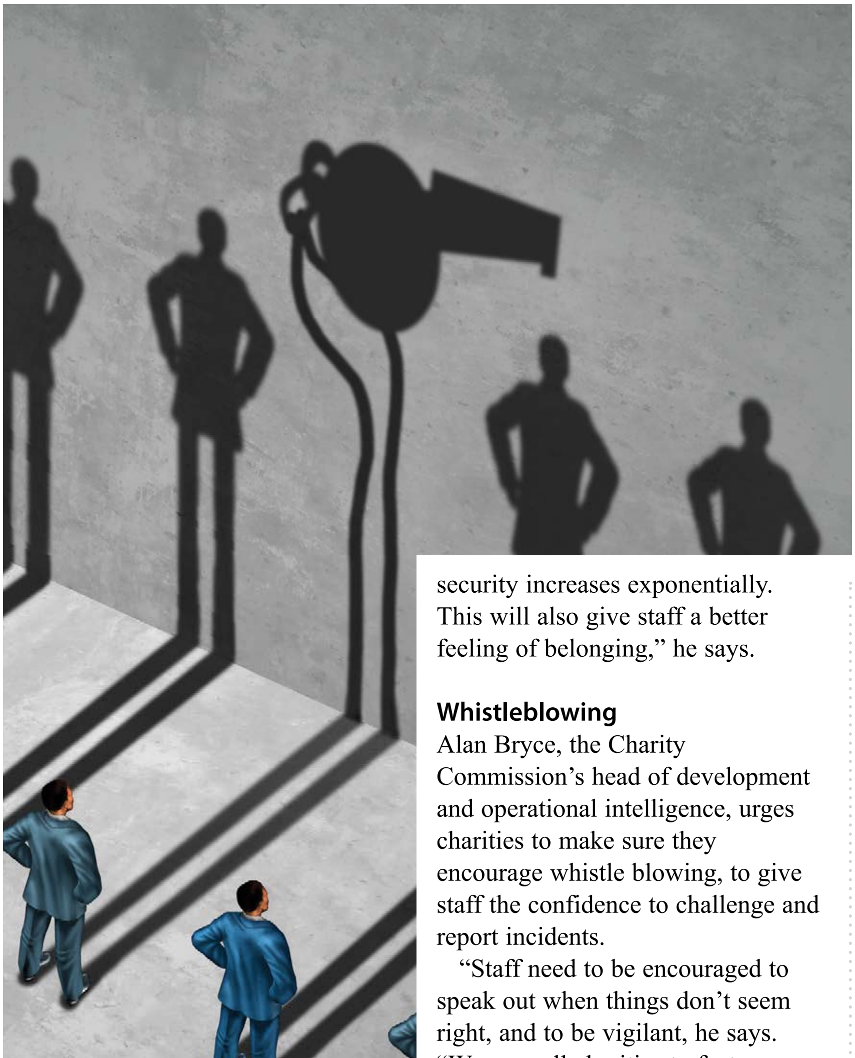
This is particularly effective, she says, at identifying “career fraudsters” who “can and do deliberately seek out positions within charities”. She adds: “Effective fraud prevention begins with good governance, good organisational culture and sound financial management. Having the right tone at the top is essential. IT controls, to identify and prevent unscrupulous activity, are also a must.”

For O’Brien, improving the financial literacy of the organisation as a whole is “absolutely essential” to help spot fraud and ensure no single individual has too much control over transactions and funds.

“Far too much fraud happens in our sector because people in charities do not feel numerately confident or financially literate. They end up trusting the treasurer, finance manager, or chief executive far too much regarding control of money, with no oversight.”

“Charities need to invest in training for all staff, not to ridiculous levels, but to the extent that they can challenge and report,” he adds.

For large charities appointing a dedicated security specialist can also help, says O’Brien. This role can be a useful focal point for staff to raise concerns and also coordinate



training to help staff spot fraud.

"I don't think every charity should think 'okay, we are a £10 million organisation, thus we should hire a counter fraud specialist," says O'Brien. "If you are a grant-making charity for example, it might be that you instead make the process of issuing grants better."

But for those who recruit such a role, Shorten warns against assuming "no one else is responsible or interested" in fraud. "By making every user aware of their responsibilities, and giving them a clear path to report unusual actions, the number of people looking after security increases exponentially. This will also give staff a better feeling of belonging," he says.

Whistleblowing

Alan Bryce, the Charity Commission's head of development and operational intelligence, urges charities to make sure they encourage whistle blowing, to give staff the confidence to challenge and report incidents.

"Staff need to be encouraged to speak out when things don't seem right, and to be vigilant, he says. "We urge all charities to foster a culture where staff, trustees and volunteers are reminded of the need to challenge any concerning behavior."

The Charity Commission's research indicates there is considerable work to be done to persuade staff that their charity is taking fraud seriously and will act on reports.

This research found that among the 54 charities surveyed almost half (43 per cent) did not report an incident to the Charity Commission. A similar proportion (38 per cent) failed to alert the police, including Action Fraud, the force's specialist national fraud centre.

"Fear of reputational damage and loss of funding can act as barriers to external reporting," says Campbell, who adds that reporting is vital to put off potential fraudsters and set an example to others in the sector.

This will "ultimately improve sector-wide resilience", she says, adding that reporting fraud "also makes it more difficult for fraudsters to charity-hop".

Bryce also emphasises how reporting fraud helps the sector as a whole.

"Reporting serious incidents, such as fraud, to the Commission also helps us to gauge the volume and impact of incidents within charities. It also helps us to understand the risks facing the sector as a whole, including any new emerging trends, which we can them alert the wider charity sector to," he says.

Reporting fraud can also greatly enhance rather than damage a charity's reputation, adds O'Brien.

Not only does such reporting show funders and the donors that a charity is tackling fraud but it also allows the charity to take control of the media narrative around incidents, he says.

O'Brien points to the recent fundraising scandals, involving poor practice by third party organisations, as an example where charities were forced to react to a negative story "which made it worse as it looked like the sector was out of touch".

"We have to be on the front foot on this and take it (insider fraud) seriously. That is the message we are giving to charities. If you take active fraud measures you are going to save your charity money – that's a positive. If we get a positive framework in place we can also insulate ourselves from potential negative media reaction," he says. ■

OPINION

Who would be a trustee today?

The path a charity trustee follows is strewn with legal traps to put people off becoming trustees, but it can also be enriching and worthwhile. WRITTEN BY JAYNE ADAMS, MEMBER OF THE CHARITY LAW ASSOCIATION AND THE ASSOCIATION OF CHARITY CHAIRS

It's a minefield. The path a charity trustee follows is strewn with legal traps to ensnare the unwary and widely reported charity collapses suggest it's all too easy to be caught out. High-profile scandals, including those engulfing Oxfam, The Presidents Club and Kids Company risk discouraging other current or future charity trustees. But in fact, being a charity trustee is invariably enriching, stimulating and worthwhile. And the vast majority of trustees fulfil their duties without censure or criticism or legal mishap. Here are some dos and don'ts for successful trusteeship:

DO:

- Check the charity's entry on the Charity Commission's website: has it filed its annual report and accounts on time? Are trustee and constitutional details up to date?
- Understand the charity's legal structure: is it incorporated or unincorporated? If the former, the charity has its own legal personality and carries out activities and enters into contracts in its own name, affording the trustees the protection of limited liability. Charity trustees of incorporated charities are usually also company directors and must comply with company law duties as well as those of charity law. If the charity is unincorporated, it has no legal personality of its own and can only act in the names of its individual trustees. This means that the trustees enter qinto contracts themselves and are personally liable: if, for example, an employee successfully sued the charity and the charity lacked sufficient funds to pay the sum awarded, the trustees would have to meet the costs.
- Ask for a copy of the constitution: has it been reviewed recently? A well-run charity reviews and updates its constitution regularly, to ensure compliance with current law and best practice.
- Consider whether the charity's activities fall within its objects: does the charity's work correlate with what it was actually set up to do? The objects will be stated in the constitution and the charity's activities must further those objects.
- Review recent annual reports and the latest accounts and ask to see the management accounts: even without an accountant's knowledge, it should be possible to gauge the charity's general financial position and senior staff or other trustees should be happy to answer queries or provide further explanation.
- Meet current trustees: are they fully engaged with and properly informed about the charity? Do they have regard to Charity Commission guidance and the Charity Governance Code? Trustees are non-executive, but are ultimately collectively responsible and should be "eyes on, hands off".
- Assess realistically the necessary time commitment: it is never enough simply to attend a quarterly board meeting – there will be papers to read, sub-committee meetings, discussion between meetings, and ongoing trustee training.

DO NOT:

- Ignore concerns: probe, and seek a professional's view if unsure.
- Assume that because it's in aid of a good cause, there will be leniency: the cry of "but we're a charity!" amounts to little by way of defence or satisfactory explanation.

The above checklist remains relevant and merits regular review in the context of the charity's operations. Don't be discouraged by recent scandals and focus instead on the overwhelmingly positive experience offered by the role of charity trustee.■

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Better Society 2018 AWARDS

Better Society Awards 2018 - The Winners

WELCOME

Every year, the entries get better, the decisions get harder and the work being done gets greater, both in its scope and its overall effectiveness.

Although the judges may have an incredibly hard time in choosing winners from so many competing, inspiring, but ultimately different approaches, the fact that so many companies now feel the obligation to give something back to society and social change is a testament to the way in which commerce and community are able to prosper together.

As I noted in my opening speech at the Better Society Awards, respect is a mutual concept. The more companies give to society, the more society will respect them. There is still much misunderstanding in the public mind to the role of business, and that lack of clarity can be shared at times by some businesses themselves. But the Better Society Awards represent where companies can, and should, aim to be, and what is possible when businesses look to set themselves new goals that extend well beyond the corporate world.

With contenders drawn from the widest range of enterprises – from finance to entertainment – each and every company can help create partnerships, innovations and environmental commitments that move society forward and create stronger relationships between business and people.

Of course, whilst the serious nature of the undertaking is always apparent, the fun and vigour with which our finalists approach the subject cannot be ignored – and indeed some of the enthusiasm could be detected on the dancefloor after the main event.

To winners and shortlisted companies alike – keep progressing and keep celebrating that success.

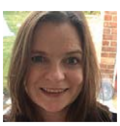
Better Society 2018 AWARDS

Categories & Judges

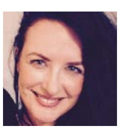
CATEGORIES

1. Communication and Education Award
2. Innovation Award
3. Environment Award
4. Waste Management and Recycling Programme of the Year
5. Built Environment Award
6. Carbon Reduction or Offset Programme of the Year
7. Partnership with an International Charity
   - sponsored by Astellas
8. Partnership with a Health Charity
9. Partnership with a National Charity
10. Partnership with a Health Charity - Children
11. Partnership with a National Charity - Children
12. National Commitment to Skills & Training
13. National Commitment to the Community Award
14. Commitment to the Local Community Award
    - sponsored by Ansvar
15. Financial Services Company of the Year
16. Asset Manager of the Year
17. Philanthropy Award
18. Consultancy of the Year
19. Best Scheme to Encourage Staff Fundraising
20. Best Scheme to Encourage Staff Fundraising
    - long-term partners
21. Pro Bono Company of the Year

THE 2018 JUDGING PANEL



Claire Cottingham
Consultant and sustainability adviser



Charlene Cranny
Communications and Campaigns Director
UKSIF

Mark Evans
Editor
Better Society

Simon Gillespie
CEO
British Heart Foundation

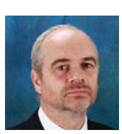
Paul Glazier
Head of New Business
Macmillan Cancer Support

Jo Goddard
Sustainability Consultant and Director
Green and Good Consulting

Gillian McKay
Head of Charities and Voluntary Sector
ICAEW

Greg Sage
Communications Director
Greene King

James Sutton
Head of Corporate Partnerships
Raleigh International



Nick Wright
Managing Director, Corporate Responsibility & Community Affairs
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Better Society 2018 AWARDS

THE WINNERS

Communication and Education Award
WINNER: ITV

Built Environment Award
WINNER: Borough Market

Innovation Award
WINNER: Barclays

Carbon Reduction or Offset Programme of the Year
WINNER: Co-op Insurance

Environment Award
WINNER: Willmott Dixon

Partnership with an International Charity - sponsored by Astellas
WINNER: The Costa Foundation & PEAS

Waste Management and Recycling Programme of the Year
WINNER: Manchester Airports Group

Partnership with a Health Charity
WINNER: Sainsbury's Argos & Macmillan Cancer Support

Better Society 2018 AWARDS

THE WINNERS

Partnership with a National Charity
WINNER: Virgin Media & Scope

National Commitment to the Community Award
WINNER: Prudential, Teach First and Greenhouse Sports

Partnership with a Health Charity - Children
WINNER: FTI Consulting & Place2Be

Commitment to the Local Community Award - sponsored by Ansvar
WINNER: Hogan Lovells

Partnership with a National Charity - Children
WINNER: Berkeley Foundation (supported by Berkeley Group) & The Lord's Taverners

Financial Services Company of the Year
WINNER: Standard Life Aberdeen

National Commitment to Skills & Training
WINNER: Tata Consultancy Services

Asset Manager of the Year
WINNER: Social and Sustainable Capital

Better Society 2018 AWARDS

THE WINNERS

Philanthropy Award
WINNER: Co-op Foundation & Allan Leighton

Best Scheme to Encourage Staff Fundraising - long term partners
WINNER: Jardine Motors Group & Whizz-Kidz

Consultancy of the Year
WINNER: Campaign Collective

Pro Bono Company of the Year
WINNER: BJSS

Best Scheme to Encourage Staff Fundraising
WINNER: Deutsche Bank, Autistica and Hope and Homes for Children

Better Society 2018 AWARDS

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OPINION

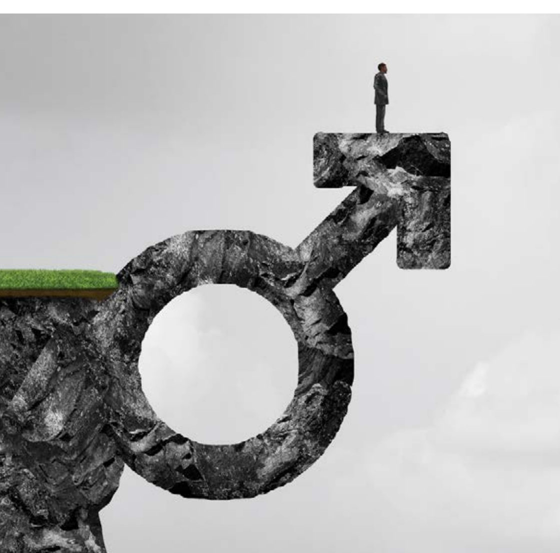
Gender pay reporting can be positive for charities

Failing to report your gender pay gap could be a missed opportunity for charities of all sizes to promote their employment practices. WRITTEN BY CARA MILLER, PARTNER AT MHA MACINTYRE HUDSON

Many charities face a tough time as they try to juggle never-ending funding cuts with growing needs in our communities. They're encouraged to act like businesses, to be more commercial and run a tight ship, as if they exist for the benefit of profit-hungry shareholders instead of those most at need in our society.

Recent negative media coverage has damaged public trust in the sector and many charities may find the spotlight on diversity created by the gender pay gap reporting unwelcome. While many charities have fewer than 250 employees, and haven't had to comply with gender pay reporting, not doing so could be a missed opportunity for smaller charities to promote their employment practices. After all, equality and diversity have been at the heart of the way the sector has operated for years.

Some charities with fewer than 250 employees have still done the required analysis, publishing the results on a voluntary basis, and there are many reasons why this may be considered the right move for your charity too.



1. Honesty all the way

Disclosing information you aren't legally forced to sends out a positive statement to the public and your stakeholders, whether that is beneficiaries, donors or both current and future employees. It says that you have nothing to hide and speaks volumes about your integrity.

2. No news like good news

The sector has traditionally employed a high percentage of female staff and typically held a positive stance on fairness and quality in the workplace. For many charities, their gender pay gap report could tell a very positive story and even be something that helps to set a charity apart.

3. What if it's broken?

You can't start to fix something if you don't know it's broken. Preparing pay gap information can identify discrepancies you weren't aware of, and for some charities below the mandatory reporting threshold it may be easier to investigate, understand and address such discrepancies quickly as they may be on a smaller scale.

4. Attracting top talent

A charity may find it easier to attract top talent when recruiting if it can clearly demonstrate it is committed to being a fair and equal employer that embraces the values of honesty and integrity. Retention and morale of existing staff could also be improved.

5. Wider engagement

A charity may find more doors are open and it's easier to engage with a wider section of the public after demonstrating such equality. While the charitable sector does seem to be ahead of its corporate counterparts with the gender pay gap, there is still much to be done at trustee level. ■

ADVERTORIAL

Responding to fraud in charities

Fraud is on the rise among charities, but there are some key plans you can put in place to keep your charity safe from any unneccesary damage. WRITTEN BY BRENDAN WEEKES, SENIOR MANAGER OF FORENSIC SERVICES AT SMITH & WILLIAMSON

Charities are not immune to fraud. In some instances charities are specifically targeted by criminals due to their perceived lack of controls and heavy reliance on trust based governance.

Whilst there is an increasing awareness of fraud risk in the charity sector, and a growing concern by the Charity Commission over weaknesses in controls, failure to respond appropriately to allegations of fraud can increase the risk to a charity's reputation, jeopardise the public's trust in the charity, and future income streams.

This article covers some key points to consider when responding to fraud.

A response plan

While it is said to be impossible to eliminate the risk of fraud to any organisation, it is possible to mitigate some of the harm fraud can cause. One approach is to prepare for the worst, by developing an incident response plan which will also help the organisation to act quickly.

A response plan should set out what actions a charity should take if it detects fraud and who will be responsible for (and undertake) those actions.

In developing a response plan, charities should consider the extent of their obligations in the event of fraud.

The response plan should list a nominee trustee and a member of senior management who would take responsibility for an investigation and should also set out the options available to the charity and the circumstances they should be pursued.

Act quickly

The Charity Commission expects charities to report actual or suspected serious incidents of fraud as soon as is reasonably possible – immediately after the charity becomes aware of the incident. A delay in reporting may affect the Commission's assessment of the risk to the charity and how the charity is dealing with the incident.

Furthermore, the number of options available to a charity may diminish in the event of a delay in taking action: evidence may be lost, destroyed (or, in the case of electronic evidence, overwritten) and there is a risk that losses may continue after the charity discovers an incidence of fraud and takes no action.

Seek experienced professional advice

Not only is there the need for charities to act swiftly in response to fraud, it is recommended that they seek advice from appropriately experienced professionals.

Forensic accountants and investigators can assist the charity to secure evidence and witness testimony, minimising the risk of contaminating that evidence. There is a significant risk of compromising an investigation if evidence is not gathered in accordance with best practice and police regulatory codes, and the Defence will seek to dismiss any claims or allegations based on compromised evidence.

A key example is digital evidence – it can be tempting to log on to a suspect employee's computer and look at electronic documents in case there is something incriminating saved on the hard drive. However, opening up an electronic document can change key information about that document such as the last modified author and date. The Defence will challenge the reliability and admissibility of any document shown to be opened by a curious trustee.

Another key consideration is obtaining appropriate legal advice to assist the charity to navigate through its options and its reporting obligations. Lastly, charities should consider getting advice from media and public relations professionals. It is important for the charity to be ready to respond to any inquiries which could arise from the fraud incident. ■

Smith & Williamson

Accountancy rules and reporting:

COMPLIANCY IN AN ONLINE WORLD

Sponsored by: sage

Panel:

Gillian McKay is the head of charity and voluntary community at the ICAEW.

Andrew Spence is a pre-sales director at software company Sage UK.

Jennifer Wilson is the senior account manager at software company Sage UK.

Roundtable

Kim Broodie is a finance officer at women's charity Ovarian Cancer Action.

Gabriel Agbo is an accountant and administrator at Cash Online.

Ian Blackwood is director of finance at The Royal Institution of Naval Architects.

Matthew Roberts is the chief executive of education charity TalentEd.

Sarah Goldsmith is a financial accountant at North Hertfordshire Homes.

Daniel Chan is a manager at accountancy firm PwC. He is also a charity trustee.

Accounts play a number of different roles within a charity. From legal requirements to methods of communication – accounts are vital to the way a charity operates. The main aim of accounts, and the reporting of them, is to provide a clear picture of the way your charity operates, and what its financial position looks like. The trustees' annual report is also an opportunity to show the public and funding bodies exactly where your charity has been spending and investing money.

However, in recent years, this has become a far more difficult task for charities to keep on top of. With an increasing number of legal and governance duties placed on the third sector, there is pressure for charities to invest in digital systems that can automate the process and make reporting and transparency much less time-consuming.

Together with Sage, *Charity Times* gathered a panel of experts to discuss some of these issues and how to remain compliant in what is becoming an increasingly online world. The digital solutions are available for charities, but remaining fully compliant whilst using them is a whole other ball game.

Kicking off the discussion, Sage UK pre-sales director Andrew Spence notes how Sage has been actively working with charities to help minimise any accountancy burdens. Spence draws reference to the collaboration between Sage and the RSPCA (see p.46), explaining that despite being one of the UK's largest charities, the RSPCA still required help in managing not only its accounts and the paperwork that comes with it, but also its transparency with the public.

"We all know [transparency] has been in the press a lot recently too. The transparency of charities to their funders is key to ensuring funders are happy to continue giving their money and resources," he explains.

One of the key methods used to eliminate the risks associated with transparency is utilising technology to drive the fundamental end goal, Spence adds. "Cloud computing is an example of this, which essentially means you don't have to spend a lot of money. You simply pay for services as a subscription. This is something that can help charities to invest in the latest technology and digitise their finance organisation."

The cloud

Gabriel Agbo, an accountant and administrator at Cash Online, explains how the Community Accountancy Circle he works with provides financial training and has recently switched over to the cloud.

"I really think the cloud is better than a machine. With the GDPR, it is even clearer now that people don't know what is happening with their data, and are unsure of the security of online, so the cloud really helps to ensure it's all kept in one place safely."

But the nervousness surrounding cloud products vs the desktop is only burning off slowly. "There is progress," Agbo explains, "but it is slow, and transparency is essential."

Gillian McKay, who is the head of

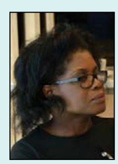
Alessandra Magri is charitable trusts and foundtaions administrator at PWW.

David Oates is a finance director at UK-based charity The Duke of Edinburgh's Award.

Helga Edwards is a director of corporate services at the Woodland Trust.

Simon Bowker is an interim finance director at UK-based charity Sustrans.

Nigel Armitt is the chief financial officer at Cancer Research UK.



Violet Howe is the head of finance at the UK-based youth organisation UK Youth.

charity and voluntary sector at the ICAEW, says there's a collective lack of understanding about what is involved in cloud technology. "We're all used to something physical, hard, and incredibly transparent. With cloud technology, the principle of that goes away, and people are worried about such a shift.

"The cloud is essentially a server in a datacentre somewhere. It's not managed by you, it's managed by somebody else. We've seen over the last five years or so that all organisations are now having to locate their datacentres in certain regions throughout the world. That's a new concept for everybody and it brings new risks."

"I think it's important to ask your suppliers where your data is actually held. You need to ask how it is looked after and what the security protocols are. You also need to challenge your supplier, because ultimately, it is your responsibility and you're the one to get the bad press if there's a breach," she adds.

Cyber risks

Data breaches are becoming increasingly more common, particularly among charities, which are often much more vulnerable to cyber-attacks due to an overwhelming amount of data and poor IT systems.

Nigel Armitt, chief financial officer and executive director, corporate services at Cancer Research UK says it's absolutely necessary to be prepared and have a contingency plan in place to avoid being "caught out".

"Recently our systems were down – which I'm sure plenty of people around the table have experienced – and what was interesting was that our technology area mobilised themselves to quickly communicate with everybody in the organisation.

"They sent a text message to all staff they had on their database, but of course that is reliant on everybody having up-to-date mobile phone numbers on the database. But it certainly shows how well organised technology must be and how a contingency plan is essential."

No matter how large or small cyber-attacks are and how prepared a charity is, the impact will always be felt.

In Cancer Research UK's case, the main issue was the initial shock and disruption. "It's a disruption to everybody's day job because nobody has any idea how to proceed. However, after that, management takes over and then people start to calm down – just knowing somebody is in control and is going to take care of the situation."

Simon Bowker, interim finance director at Sustrans comments: "It is well-known that the size of

cybercrime is bigger than the international drugs trade in terms of value to criminals".

"If your finance departments are anything like ours, you'll probably get bombarded by phishing scams, which are more and more sophisticated, and it's increasingly challenging to spot that they are not genuine. You have to be constantly vigilant."

But, Bowker notes, the key is to ensure all of those instances are not only reported to the national authorities, but are also used as training materials within individual organisations to make sure there's a "culture of alertness and understanding of risks".

Transparency

The general consensus among the panel is that while the cloud and technological systems are beneficial to the organisation of a charity's accounts, it is still important to ensure there remains a human element within the process to prevent charities from losing a connection to their beneficiaries.

Transparency is also key in building a strong relationship between charities and their beneficiaries. In a climate where the public's trust in charities is low, it is essential charities provide an honest and accurate representation of their financial situation.

Jennifer Wilson, senior account manager at Sage, backs up this notion from a personal perspective: "I was talking to my sister and a group of her friends recently and they will absolutely read annual reports on a charity's website to see the financial numbers and what money is being spent where. Because that is what people care about now.

"This is particularly the case in larger organisations, whereby the expenditure number is typically bigger. But those numbers aren't always displayed in the best way."

However, Daniel Chan, manager at PwC highlights that annual reports and accounts are only one part of the suite of reporting. "It also includes websites, social media and a whole range of different sources where stakeholders, including the general public, can get information from charities to make sure they are all telling the same story, and to make sure they are consistent," he says.

"So, it is really important to speak with one voice as an organisation, so that when people do go to your website, do go to social media, and look at the accounts all in one go, they are seeing the same message coming out from the organisation."

Risk management

Managing the reputational risks that derive from a lack of transparency, as well as the cyber risks that are inflicted as a result of poor IT management are part of the reason accounting and reporting has become increasingly difficult over the past few years.

Furthermore, remaining compliant can feel virtually impossible when data is handled remotely. Helga Edwards, director of corporate services at the Woodland Trust argues that regardless of what systems are used and where they are hosted, human beings are always behind it, thus, there will always be risks involved.

"At the Woodland Trust, we've been working with our staff and volunteers on security awareness training, which has been taking place over several years because if anything's going to happen, we

know there will be a human being behind it. So, Sage could be the very best, but somebody somewhere is going to make a mistake, and we're always anticipating an incident will happen."

Bowker agrees, adding that it's important to ensure staff training is common place throughout all charities, not just those that have experienced any issues. "At Sustrans, we've just conducted a self-assessment of our risk management model for financial crime. It was initially just going to be against tax evasion under the Criminal Finances Act, but we were guided to widen the scope of it and consider fraud, bribery and money laundering." he says.

"It's really helped us to stress-test our existing controls and identify some opportunities to enhance awareness further."

The panel draws on the process of e-learning, highlighting how staff training is only valuable up until the point of exiting and entering employees. "You can do a training programme, but what about all of the new people?" Spence asks. "I think e-learning is a blessing."

Investment for the future

As highlighted in the discussion, there are a number of different factors involved in the process of managing accounts, and the easiest solution to issues surrounding transparency, organisation, data-handling and security is to turn to technology for support. But the main concerns for many charities are cost.

> *"Charities need to educate the public and be truthful about the cost of running a charity. "*

But despite this, not all technological developments need to be a drain on finances. E-learning, for example, can be done for free if executed correctly. "Every two years or so, you can run a refresher. And to do that, you literally just send out an e-mail – not a phishing e-mail – and you run through it, and that's a great, cost-effective way of rolling training out," Spence explains.

Chan adds that there is a "need" for the sector to "tell an authentic story" and an investment in IT can help to do that.

"Charities are expected to be proactive in being transparent and saying to the public: 'We will give you much better value if you give us one pound to spend on IT'. By changing the storyline around the way we present information, we are more likely to find that the public is a lot more willing to spend money on the cause."

Education

As the panel highlights, being compliant in an increasingly online world is never going to be a particularly easy task. But, from knowing where your data is held to being honest and upfront in the reporting of accounts, the key is to ensure you always put the public first.

Alessandra Magri concludes: "Going forward, it's just really important charities engage with and educate the public". "Charities can often mislead the public by saying, for example: '£10 will give education to a child for a year'. What they don't know is that some of that £10 has to go to overheads.

"We just really need to be upfront. Charities need to educate the public more through their finances – be truthful about the cost of running a charity. It is all about empowering perceptions by being really transparent in what charities are achieving and how they are doing that. Then, the sector will gain the trust of the public again." ■

ADVERTORIAL

How the RSPCA future-proofed its business systems

As the RSPCA celebrates its 200 year anniversary, it is also celebrating the start of a new journey, with the business tools that can take it into its third century with ease.

WRITTEN BY SAGE AND CPIO

At RSPCA headquarters in Horsham (Sussex, UK), people bring their dogs to the office while they work. "It's one of the great things about working here," says Helen Tracey, chief financial officer for RSPCA, the UK's largest animal welfare charity. "As we're talking, I can see a golden retriever puppy sleeping under someone's desk."

It's a nice insight into the RSPCA, a charity that was founded nearly 200 years ago, in 1824. Its ultimate aim remains the same – to promote kindness towards animals – however the founders would barely recognise today's organisation. The RSPCA is now one of the UK's largest charities, with an income of £140 million and over 1,600 employees. It has a large network of regional offices, 30 animal homes, hospitals and clinics, and a team of uniformed inspectors on the streets. The organisation investigates over 150,000 complaints of cruelty and neglect every year.

But the financial and administrative overheads have grown along with the organisation. As Helen explained, "Many of our processes, particularly in finance, had become outdated. Like many older charities, processes had evolved by default, not design, and there was a gap between what we were doing and current best practices. We also knew we needed to have greater clarity and leverage over our information. By shifting the finance team away from transactional processing to a review and analysis-type role, we knew we could really add value to the business."

Reaching out

Introducing Sage software gives RSPCA's central teams the opportunity to do more for others, such as fulfill a more service-led function to the large branch network. In corporate and social responsibility (CSR) terms, RSPCA could start to assist other smaller charities, particularly those working in the same arena. Improving processes and reducing admin frees people up to do all this, and more.

The RSPCA's vision is to live in a world where all animals are respected and treated with compassion. It works to improve the welfare of pet animals, improve the lives and reduce the suffering of farm animals, reduce the use and suffering of animals in experiments

All of its income is raised through voluntary donations, legacies and memberships and fundraising with corporate partners.

"We needed a solution that would enable us to take control of the business and maximise our donations, so that they are focused on animal welfare and not to administration costs," Helen said. "We also wanted a solution that had longevity. We're very aware, sadly, that the need for our services is not going away any time soon."

At the start of 2014, the society went through a competitive tendering process. Helen explained: "We were keen to include Sage because they are the market leader – they had also provided our previous finance system. We then undertook a structured and controlled selection process, and it was clear pretty early on that we had found the right solution in enterprise management, part of Sage Business Cloud."

Another critical element was the role that Sage partner, CPiO would play. "We started working with CPiO some years ago and as a result they really understood our organisational goals and our aims for the end system," Helen said. CPiO worked, and continue to work, very positively with RSPCA, and were excellent at challenging some of its established processes – questioning the methods, so that they could get the most out of a modern enterprise management solution.

It was clear that enterprise

management met all of RSPCA's overarching objectives. "We wanted a plug-and-play solution, not bespoke – we wanted to configure, not customise – and it had to support best practices. We also wanted a cloud-based solution. As well as fitting in with our organisation's 'digital first' approach, a cloud solution meant we don't have to heavily invest in IT infrastructure," Helen said. "Instead, we have put that money towards helping animals."

"The role of CPiO was again invaluable here," Helen said. "Following their lead, we created a collaborative project team made up of technical/business project managers and subject matter experts, who all worked together to make sure we got the right results."

In addition to the core financial management modules for invoicing, payments and the usual checks and balances, the RSPCA chose to implement two additional modules. Sage Enterprise Intelligence gives intuitive real-time data reporting that makes it quick and easy to get relevant business insights (and ensures a consistent data view for everyone). And with eDocument Management, an electronic copy of an invoice can now be stored with a transaction, keeping everything together and removing the need for paper copies.

Phase one went live in July 2017, delivered on time and within budget, and the benefits have quickly spread across the business. "We estimate we've already seen a 20%-40% increase in efficiency by moving from a traditional system of paper invoices and old-fashioned date stamps to scanned invoices," Helen said. "We're still calculating the reductions we're seeing in cost per transaction, but that, plus the amount of rework, are two of our key metrics, and we can already see both values coming down," she added.

There's universal love for the new system across the business. With enterprise management available on any device, people can now take business data to where it's most needed. "Our commercial colleagues do a lot of work supporting teams in the regions. Previously they were more desk based and took wads of paper with them when they did go to site. Now they can go any time and take Sage with them – on their laptop, Chromebook or mobile phone," Helen said. The quicker and easier data analysis in enterprise management also helps the commercial team to generate better forward-looking planning.

Another key aim of the new system was faster financial closing, particularly at year end. "We wanted to shift the balance of work to earlier in the process, to make sure we have the data insight earlier in the system," Helen said. "And it's been a success – the timetable and schedules are better. Even the auditors have seen a real difference: we have better data insight and can respond with much greater agility to their requests for information," Helen said.

Fewer invoices and less paper has reduced the finance teams' workloads and admin costs, but Helen says the Society has also seen some unexpected benefits. "We've found we now have a more consistent approach to processes across the team, which allows for more flexible working," she said. "People are collaborating much more, and we can now achieve a clear desk policy. It gives us more space and makes the office a nicer place to work."

So what's next for the RSPCA?

There's no doubt that the RSPCA is on a journey and that Sage and CPiO are long term partners. "We chose enterprise management so we can have a solution that's future-proof and will adapt with our needs," Helen said. Phase two of the project is already underway, and this will see the cloud-based solution extended to cover the RSPCA's fixed assets (including all its properties and vehicles) and procurement processes.

As the RSPCA gears up to celebrating its 200 year anniversary, it's clear it now has the right business tools to take it into its third century ■

sage cpio

OPINION

Gift Aid: Where are we now?

Recent figures revealed charities are losing a huge amount of income due to unclaimed Gift Aid – but with a number of changes having been made to the tax system, what role does Gift Aid play now? **WRITTEN BY** PESH FRAMJEE GLOBAL HEAD OF NON PROFITS AT CROWE CLARK WHITEHILL

Over 150 years ago, William Gladstone as the Chancellor of the Exchequer tried to reduce tax relief available to charities and donors saying that "in every case, exemption means a relief to A at the charge of B". This truism did not lead to a change and Gladstone's proposals were rejected. More recently in 2012, George Osborne as Chancellor tried to cap the amount of relief available to donors. Once again, this was rejected.

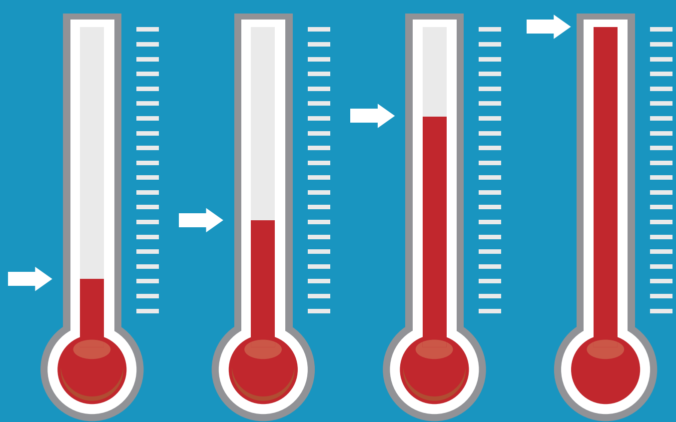
In 2013, the National Audit Office (NAO) prepared the report *Gift Aid and reliefs on donations*. When launching the report, Amyas Morse, the Comptroller General and head of the NAO said: "Gift Aid is an important source of income for many charities, worth £1 billion to charities in 2012-13. The changes made in 2000 to increase charitable giving resulted in a further £940 million of reliefs going to individuals and companies as an incentive to give more money to charity. However, the exchequer departments cannot demonstrate that these incentives are working, or that the increased cost to the taxpayer has resulted in a rise in donations to charity."

The UK and Gift Aid

UK's Gift Aid tax relief is unique when compared to the way in which other countries provide tax relief to donors. The key difference is that much of the relief goes directly to the charity. Charities can claim from HMRC an extra 25p for every £1 given by eligible UK taxpayers. Thus, a basic-rate taxpayer knows that her/his £1 donation is worth £1.25 to the charity. Taxpayers who pay above the basic tax rate can claim back through their tax return the difference between the tax rate they pay and basic-rate on the value of their donation.

Higher rate and additional rate relief is given by increasing the basic rate band and higher rate band by the grossed-up amount of the gifts. In most cases, if a donor is paying tax at the higher or additional rates (40% or 45%), the relief will be equal to the difference between basic rate and either 40% or 45%. So on a £100 donation, the higher rate tax payer can claim back £25 (£125 at 20%) and an additional rate

Gift Aid



tax payer can claim back £31.25 (£125 at 20% plus £125 at 5%).

Changes to the system

Tax reforms in 2010 introduced, for a few years, a higher tax bracket of 50% for incomes above £150,000 and removed the tax-free personal allowance for those earning above £100,000, which had an unintentionally large impact of creating a marginal rate of 60% for tax payers in the £100,000-£112,950 income band. Both changes further reduced the cost of giving for taxpayers with incomes in these ranges. However, as the NAO report explained, the impact of tax reliefs has been unknown.

Earlier this year, the NAO – University of Birmingham Tax Centre was set up to identify and conduct research on tax issues and to encourage debate, stimulate ideas and exchange knowledge through events and networks. It also aims to enable government bodies, academics and tax practitioners to discuss needs and practical challenges in a 'safe place'.

The Tax Centre's researchers reviewed over 75 million self-assessment income tax returns for periods before and after the 2010 change and concluded that the amount of giving responds positively to a change in the cost of giving. However, every additional £1 spent on tax incentives is generating only £0.27 more in donations. This increases to 35p for higher-rate self-assessment taxpayers. In other words, charities would get substantially higher donations if the value of the Gift Aid relief were given directly to them.

This idea has been discussed periodically but some are averse to change and think it will lead to less giving – I believe that it will lead to more income to charity.

A review of tax relief

This and other matters will be considered in the first systematic review of charity tax reliefs in over 20 years, which is being carried out by the Charity Tax Commission, which was established in October 2017 to undertake a full review of the impact of the tax system on charities. In the 20 years since the government's last comprehensive review of charity taxation, the voluntary sector has evolved dramatically, with systemic and fundamental changes to the way charities operate, the role they play in society and service delivery, and their use of technology. A thorough appraisal of how the UK's fiscal framework functions for charities could help position the long-term strategic role of charities in society.

The commission is being chaired by Sir Nicholas Montagu, a former chair of the Inland Revenue, who is joined by a board of six commissioners with charity, economic and fiscal expertise. NCVO is providing secretariat support for the commission. The commission will develop a long-term strategic approach to fiscal policy for the voluntary sector. In doing this it will examine the principles that underpin charitable tax relief, analyse the current system of tax reliefs, and develop recommendations for reform. The commission will primarily focus on increasing the efficiency and effectiveness of the existing taxation system and make practical, evidence-based recommendations for government.

The commission has opened its call for evidence. This 16-week consultation period will be an opportunity to provide feedback on their experience and views of the current system. The consultation will close on Friday 6 July 2018.

Anyone with relevant knowledge, expertise or experience of charitable tax reliefs in the UK is invited to submit their evidence. This would include charities, donors, academics, think tanks, representative bodies, accountants, philanthropy and financial advisers and tax professionals.

This is an important consultation, which could impact far into the future and it is vital that relevant stakeholders engage. ■

FEATURE

A clearer picture?

Post-MiFID II, investment managers are working hard to comply with new rules, but just how transparent is this new landscape? WRITTEN BY LAUREN WEYMOUTH

Earlier this year, charities were warned they would be able to increase donations by almost 50 per cent if they were more transparent with donors about how they spent their money. Blockchain start-up Giftcoin surveyed over 2,000 consumers and found that by opening up, charities could increase their donations drastically; in turn developing closer relationships with supporters.

Of course this need for transparency is universal, and when consumers demand greater transparency from their chosen cause, charities should expect the same thing from the firms responsible for managing their money.

Richard Maitland, head of charities at Sarasin and Partners explains how a lack of transparency and different interpretations of how costs should be declared will continue to "make it hard" for charity investors to carry out like-for-like cost comparisons and to understand how much of their return is being "leached away by costs".

"In some instances, the different treatment of the costs associated with different types of investment has already led investment managers to change the securities they own, leading to higher turnover costs and a situation where historic costs may never be known," he adds.

Naturally, given the vulnerability of charities' funds, it is understandable many trustees are sceptical about the truth behind the numbers. It doesn't provide much reassurance, either, when headlines suggest charities could be significantly overpaying investment fees. Research published by SEI earlier this year revealed the charity sector is likely to be "substantially" overpaying on management fees compared to other institutional investors.

But, with concerns about fees and transparency rife, enter the new MiFID II rules, which were designed to offer greater protection for investors and inject more transparency into all asset classes, Nandu Patel, managing director of Rothschild explains. "From equities to fixed income and exchange traded funds, the main aim of MiFID II is to make European markets safer, more transparent, and more efficient," he says.

The Markets in Financial Instruments Directive (MiFID) is a European Directive, which was initially implemented in November 2007, affecting how firms carry out investment business to integrate Europe's financial markets and enhance investor protection.

Subsequently, MiFID II came to the scene – the new regulations that were designed to fundamentally review and enhance the previous directive, with a primary focus on investor protection and market transparency. Firms needed to implement these rules by January 2018.

Increasing transparency

For the key decision-makers in charities, much of this will have been going on behind the scenes. So what have investment managers actually been doing to provide greater transparency since MiFID II?

Patel explains that pre-MiFID II, clients could "become easily disaffected if they were not given an accurate impression of the total fees being charged". "If a client does not receive cost transparency, this can lead to ill-informed decision making and potentially can lead to choosing a manager who appears cheaper when in reality, given the hidden fees, they are more expensive overall," he adds.

"Although not required by MiFID II, we provide clients, as standard, with a detailed breakdown of costs and charges to reflect our existing culture of transparency," he explains. "We have also avoided investing on a proprietary basis in in-house funds, to remove potential conflicts of interest. We report our performance net of fees, so the actual spendable return for clients."

Patel adds that it is the investment manager's duty to ensure third party managers disclose all costs of managing their portfolios, which "means it can give an accurate picture of the total portfolio costs to clients".

Richard Maitland, partner and head of charities at Sarasin and Partners agrees about the importance of ensuring transparency across the board. "Through our Compendium of Investment publication and training partnerships with CFG and a range of professional intermediaries, we have made every effort to ensure trustees and executives of charities have the tools and knowledge to ensure they know the questions they need to ask to calculate precisely what they are paying," he explains.

But while MiFID II is a progressive regulation and generally provides greater transparency, it does not always mean full transparency. "Those who allow their fund managers to simply comply with the letter of the law, rather than the spirit, could underestimate their true cost of investment by a third," Maitland says.

Many investment managers can claim to be fully transparent, and often, simply complying with the rules will make it appear that way, but as Maitland explains (read p.54 for more details), there are often a number of added costs hidden beneath the numbers.

Awareness is key

So what can charity trustees do to stay aware? Jon Bell, investment director at Newton Investment Management explains there are two things charity trustees can seek to understand from their investment manager.

"They must first of all look at the work investment managers have done with their counterparts to reduce dealing costs", he says. Secondly, he adds: "Trustees should ask their managers whether they have chosen to absorb the costs of external research, rather than to increase clients' fees. Newton IM has decided to absorb these research costs."

By now, trustees will have received their first reports produced under the regulation and should also have a much greater understanding of the costs involved in achieving their returns. However, the "next test" is whether they understand what the report shows and "clearly understand what the level of charges means for the performance of their investments", Andrew Wauchope, senior investment director at Psigma Investments says.

"So far, MiFID II appears to have been far more of an issue for professional firms than their clients," Wauchope adds. "Many had to do extensive work to bring their paperwork up to date or found they did not have the necessary historical data to illustrate the necessary changes demanded under MiFID II.

"Despite these difficulties, the new reports give a far more accurate and comparable figure of the costs of running each portfolio. Therefore, it may be the first time trustees can really see what the actual cost of running their portfolio is."

Wauchope explains there are a further two key questions all trustees should be asking. "Firstly, is your investment manager actually delivering value for money? Secondly, did they handle MiFID II sensitively and supportively, or were you left on your own to deal with reams of documents?", he says.

"If the answer to either of these questions is anything other than an unequivocal "yes", MiFID II will have provided them with a catalyst to review their investment manager and appoint one who will ensure they get value for money and the right support in future." ■

OPINION

MiFID II: the gaps in transparency to look out for

There's a gap between those following the rules of MiFID II and those who are adhering to the spirit of it – make sure you don't get caught out. WRITTEN BY RICHARD MAITLAND, HEAD OF CHARITIES, SARASIN & PARTNERS

Do you believe that MiFID II will result in a level playing field when it comes to the reporting of investment management costs?

While the regulations are a step forward in terms of disclosure, investment managers are still not required to disclose the total costs of their clients' portfolios. Within the industry, there continues to be a gap between those who declare what is required by the letter of the rules, and those who go further and try to adhere to the 'spirit' of what MiFID II is about.

Pricing transparency lobby groups have sprung up and a handful of investment managers are leading the charge with full disclosure. Unfortunately, they often have to caveat their pricing quotations with warnings that they may appear more expensive than competitors and some even provide a "MIFID II price" for comparison purposes, inviting the prospective client to inspect differences between the two.

And while the 'gap' between those in favour of full transparency and those wishing to obfuscate is getting smaller, it doesn't make those adopting opaque practices any more right than they have ever been. Indeed, some of the leading elements of the investment industry lobbied *against* greater transparency, which should worry us all. I, for one, would not appoint a manager who wasn't aiming for total transparency. Could I trust someone who couldn't bring themselves to be as transparent as possible? I think not.

Let us consider some of the gaps between the spirit and the letter of the latest MiFiD II regulations that should be considered when researching investment managers.

Opaque practices

Most portfolios invest in some funds that are not managed by their appointed manager. These 'third party' funds can bring significant diversification benefits, both in terms of exposure to

additional managers and different asset classes. However, they also have embedded costs. And for the first time, MiFiD II will require these costs to be declared.

However, the regulations only say that managers need to declare the costs of the ‘open-ended’ funds they own and not of ‘closed-end’ investment trusts. Looking out for the vehicle and structure used is important because one could compare two remarkably similar investment portfolios, with 25% invested in third party funds, but the manager using investment trusts could report costs 25% lower than the other: it is unlikely that this is well understood outside the industry.

Moreover, while investment managers have to declare the investment management fees within open-ended third party funds, they don’t have to include the full costs of owning these funds. The ‘other’ charges embedded in OEICs and Unit Trusts can increase the costs of these funds by a third. Operating within the letter of the law could hide about 8% of your costs.

The way in which your investment strategy is implemented is important and accounts for another possible missing element: VAT. Specifically, the VAT levied on investment management fees applied to segregated portfolios does not have to be declared. This can make a segregated service look inaccurately cheap when compared to portfolios invested in most pooled funds, within which HMRC does not levy VAT on investment management fees. On a £5 million portfolio being charged 0.60%, this could amount to a 12% cost differential.

Lastly, even the more transparent manager will acknowledge that there are still a few areas where more forensic research is required: the costs of trading (the bid-offer spread leakage) and the costs associated with currency hedging. However, even the most transparent investment managers find these hard to monitor and even fewer have the ability to report on them consistently. Other issues surround how initial, exit and performance fees are factored into cost disclosures. The latter will only ever be known after it has been earned while the calculation of the impact of entry/exit fees requires some assumptions as to the holding period over which one amortises these costs.

Caveat emptor!

So no one is perfect and a full analysis of costs will only ever be available after the event. In this, MiFID II is helpful. As well as requiring fuller declarations at the time of an appointment, from the end of 2018, managers will have to supply their clients with an historic analysis of the previous year’s costs. While there will be differences, it is the degree of disclosure (as set out above). MiFID II should be seen as progressive regulation insomuch that it moves the industry in the right direction. However, the playing field is still not level: investors must be as careful as ever when making their investment decisions as small basis point differences can have a profound impact on performance over the longer term. ■

SARASIN
& PARTNERS

ADVERTORIAL

From screened to sustainable

Could sustainable investing be the approach charities need to achieve long-term investment goals in a responsible manner? WRITTEN BY ROB STEWART, HEAD OF RESPONSIBLE AND CHARITY INVESTMENT, NEWTON INVESTMENT MANAGEMENT

For some time now, socially responsible investing has been a key area of focus for many charities looking to ensure their investments are aligned with the core aims of their mission.

Traditionally, many charities have chosen to follow an ethical investment approach, which involves applying screens to avoid entire sectors. As the topic of climate change has risen up the agenda, it is unsurprising that many charities have been considering adding some form of fossil-fuel exclusion.

Fossil-fuel exclusions potentially cover a far broader range of companies than other areas for which exclusions have customarily been applied. Furthermore, if investors choose to exclude fossil-fuel investments from portfolios, they will in effect weaken their influence over such companies, since it will be less easy to advocate change without having a vested interest or the ability to exercise voting rights.

In this context, there has been growing interest in sustainable investing, which uses environmental, social and governance (ESG) analytics to differentiate between companies based on their actual fundamentals and strategies rather than their sector classification.

Since the 1970s, academics and investors have published over 2,000 separate studies looking at the relationship between ESG criteria and corporate financial performance. The aggregated evidence makes a positive case for ESG investing, with most of the studies showing that companies with positive ESG credentials have performed better[1] .

At Newton, responsible investing has been a key part of our investment process for a long time, and we see sustainable investing as a natural evolution of this. We have recently launched a new range of sustainable strategies, which put ESG factors at the forefront of decision-making.

In our view, the key elements of a successful sustainable investment approach include:

- Investing in companies that positively manage the material impacts of their operations and products on the environment and society, as well as businesses that have unrealised ESG-related opportunities.
- Giving responsible investment specialists veto power in the stock-selection process, enabling them to prevent a sustainable portfolio from holding a particular company. This transfers the ultimate discretion from a portfolio manager, where it traditionally lies, to specialist responsible investment analysts. This is a subtle but important shift, signalling a change in the priorities of the considerations that shape a portfolio – both to an investment team and to the external world.
- Establishing engagement plans with set timelines for companies that can improve through engagement.
- The use of 'red lines' to rule out certain companies from being considered for investment, such as those that are not aligned with the UN Global Compact's ten principles that promote responsible corporate citizenship, or with the aim of limiting global warming below 2°C.

The wide range of 'responsible' investments available reflects the fact that not all investors have the same objective or sustainable belief. Indeed, Newton offers an integrated approach across all strategies, while also providing ethically screened solutions.

However, we think sustainable investing, which can enable the manager to pursue a socially responsible agenda without compromising returns, is likely to become increasingly significant for investors as time goes on. Such an approach could help charities to achieve their long-term investment goals in a responsible and sustainable manner.

NEWTON
Investment Management

1 ESG and Financial Performance: Aggregated evidence from more than 2,000 empirical studies, Journal of Sustainable Finance & Investment (Friede, Busch & Bassen), 2015

INVESTMENT

Anchors aweigh!

Benchmarks provide valuable information to both charities and discretionary managers, but they also act as an anchor that may restrict the range of opportunities available.

WRITTEN BY MARK JEFFERIES, DIRECTOR AND GRAHAM HARRISON, GROUP MANAGING DIRECTOR, ARC CONSULTANTS

Benchmarks provide valuable information to both charities and discretionary managers in providing a reference point for the potential performance characteristics of a portfolio. However, benchmarks act as an anchor that may implicitly or explicitly restrict the range of opportunities available.

One of the most important decisions that an investor makes is the choice of benchmark used to represent the investment outcome that they are seeking to achieve. For passive investors, the link is direct. With a wide range of exchange traded funds and other tracking funds, it is possible to construct a portfolio that closely reflects the desired benchmark less costs. For active investors using the services of a discretionary investment manager, the benchmark is typically used to inform the process of setting investment guidelines and serves as both a "neutral" asset allocation and a performance target. The manager then seeks to deliver performance over and above the benchmark through a combination of tactical asset allocation and superior fund/stock selection.

In behavioural science, the "anchoring bias" refers to the tendency to rely too heavily on the first piece of information offered. Benchmarks can act as a powerful anchor, constraining both the expectations of the client and the actions taken by a discretionary investment manager. This article examines the potential impact.

Figure A

Asset Class	ARC Sterling Steady Growth Reference Index		
	Low (%)	Neutral (%)	High (%)
Cash	0	5	15
UK Equity	10	20	30
World Equity	25	35	45
Emerging Market Equity	0	5	15
Government Bonds	0	10	20
Corporate Bonds	0	10	20
Commodities	0	5	15
Hedge Funds	0	10	20

Anchoring Risk

The degree of discretion employed by discretionary charity investment managers varies significantly but there is one factor that remains constant: the choice of benchmark is a significant factor in determining the performance outcome for a portfolio, both on an absolute and on a relative basis. Why might that be? Because one of the risks that discretionary investment managers both monitor and seek to control is the divergence of a portfolio both in terms of asset allocation and performance from its benchmark.

Consequently, anchoring to a benchmark introduces its own risks into the investment process: the risk that the benchmark does not adequately represent the desired investment outcome; the risk that the full universe of investment opportunities is not addressed; and the risk that investment decision making is unduly constrained.

To examine the impact of the anchoring bias, we have considered potential outcomes for a portfolio with a risk level of around 70% that of equities. Such a portfolio would sit in the middle of the ARC Steady Growth universe of portfolios which encompasses those with a realised volatility versus equities of 60% to 80%. The analysis has examined the impact of anchoring bias by

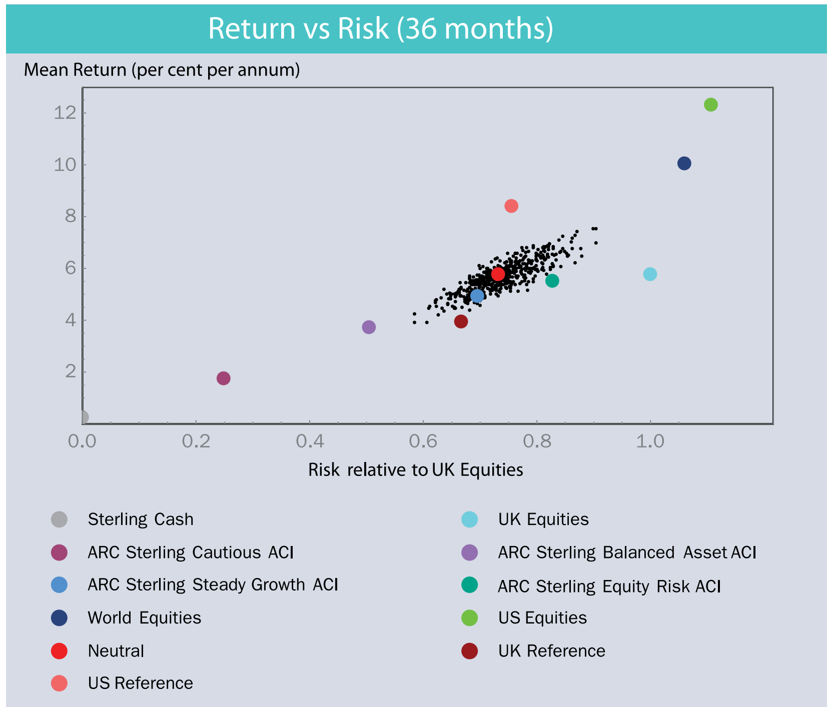


Figure B

Portfolio Benchmark	Sterling 3 Year Return to Mar 18 / %
67% US Equities : 33% Sterling cash	27.7
ARC Sterling Steady Growth Reference Index	15.8
67% UK Equities : 33% Sterling Cash	11.9

Figure C

examining two components: the impact of tactical asset allocation and the impact of adding fund/stock selection into the mix.

To analyse the impact of tactical asset allocation, the starting point was to select a benchmark. The ARC Sterling Steady Growth Reference Index has been used to approximate the asset allocation and behavioural pattern of typical portfolios in the ARC Steady Growth universe. An index tracking strategy would merely hold index-tracking vehicles in these prescribed percentages and deliver the benchmark return (less costs). However, most discretionary charity investment managers employ tactical asset allocation to seek to outperform the benchmark. Thus, permitted ranges have been set for each asset class.

Figure A provides the investment guidelines for a Steady Growth portfolio in Sterling. The next step is to run as series of simulations to see how the risk and return profile of a charity portfolio with these initial conditions might behave.

The results are set out Figure B and Figure C. The simulated outcomes are shown as black dots, together with the ARC Charity Index ('ACI') peer group and global; US and UK equity markets for the three years to 31 March 2018. The shaded region represents a simplified opportunity set based on combining cash with US and UK Equities and the reference portfolios illustrate the outcome of a portfolio comprising one-third cash and two-third equities.

Although active tactical asset allocation means that there are a range of expected outcomes for the portfolios, it is noticeable that for any given risk level, the blue wedge is much wider than the simulated outcomes represented by the black dots. With UK Equities significantly underperforming US Equities over the past three years, the extent to which investors are satisfied with their portfolio performance versus a peer group of portfolios with similar risk characteristics will be very sensitive to the weighting of UK equities and US equities in their respective benchmarks. In summary, the higher the benchmark weighting to US equities, the higher the return a portfolio is likely to have experienced.

While extreme, it is possible for a Sterling reference currency portfolio to have enjoyed 3 year returns almost 12 percentage points higher than the ARC Sterling Steady Growth Reference Index through investing the equity element only in the US. Similarly, a Sterling portfolio that invested the equity element purely in UK equities would have been circa 4 percentage points worse off.

The results highlight very clearly the anchoring risk associated with choosing a benchmark. Although a manager may outperform their benchmark, portfolio performance may be well below that which would have been possible with the same risk budget but a different benchmark. The smaller the tactical asset allocation ranges likely to be deployed by a manager, the greater the anchoring risk inherent in that portfolio structure and the more time should be spent considering the future expected returns from the various benchmark components.

Anchors Aweigh

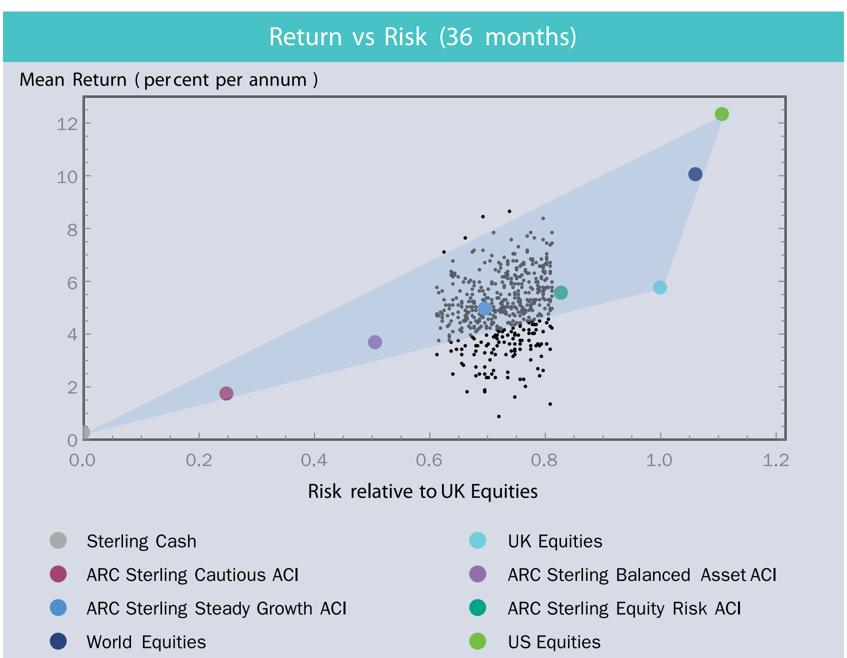
The next stage is to analyse how the range of outcomes might increase when both tactical asset allocation and active fund/stock selection is permitted. To give a sense of the range of outcomes possible from a risk budget of around 0.7 times equity risk, outcomes from the ARC Steady Growth ACI can be examined.

ARC Sterling Steady Growth ACI Portfolios

The chart below (Figure D) shows a sample of 500 Steady Growth portfolios (the black dots) from the Sterling ACI Universe. The results show a far greater range of outcomes than was the case when only tactical asset allocation was permitted, demonstrating the greater dispersion of outcomes created by the active fund/stock selection undertaken by managers. Further, a few outcomes lie outside the opportunity set illustrated by the shaded region, showing the ability of managers to add value beyond that delivered by selecting a strategic benchmark and then undertaking solely tactical asset allocation activities.

It is a reasonable assumption, based on the evidence, that a charity portfolio that had a benchmark (strategic asset allocation) heavily oriented towards US equity would almost certainly have delivered top quartile returns versus the peer group. By contrast, a Sterling denominated portfolio that had a benchmark with significant UK equity exposure would have struggled to move outside of the bottom quartile.

Figure D



Conclusions

Benchmarks provide valuable information to both charities and discretionary managers in providing a reference point for the potential performance characteristics of a portfolio. However, benchmarks act as an anchor that may implicitly or explicitly restrict the range of opportunities available. Here are four observations:

- When setting a benchmark, it should be constructed to reflect the major sources of potential risk and return to which the charity wishes their portfolio to be exposed. If the benchmark does not reflect the "neutral" asset allocation, it will be less useful.
- Care should be taken when setting asset allocation ranges that they do not unduly restrict the available investment universe or the ability of the manager to express their investment convictions through tactical asset allocation. If the ranges are too wide, they can be as ineffectual as when they are too tight.
- Active fund/stock selection widens the range of potential outcomes and allows discretionary managers to compensate for inherent risks embedded in indices.
- Using the relevant ARC ACI in conjunction with a benchmark allows charities to assess performance against their peers as well as versus their "neutral" asset allocation. Both comparisons provide helpful information. ■

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