charitytimes

April/May 2016

Finance:

Investment focus

Considerations for charities seeking to measure the value of their investments

Retail:

Charity shops

In difficult times for retail, how are charity shops holding up?

Profile:

Sophie Andrews

The Silver Line has experienced rapid growth since launch in 2013

Administration:

Data management

Bad data management exposes charities to regulatory and reputational risk

Is the sector losing its voice?

Charities' participation in the debate around EU membership is the latest battleground for third sector independence, as evidence mounts that charities are being muzzled

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INTERVIEW

New Big Society Capital chief executive Cliff Prior

Plus:

News round-up

Sector columns

Diary and appointments

See page 45 for charity suppliers directory


From loans to social impact bonds - explore some of the funding options available for charities today.
Choosing the right funding route for your charity
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PERSPECTIVE PUBLISHING

charitytimes

Charities must be free to speak out

After a post-election lull, the debate over the United Kingdom's continued membership of the European Union is once again to the fore. It is only likely to become more heated over the couple of months remaining until voters go to the polls.

At press time, outgoing Mayor of London Boris Johnson was under fire for bringing US President Barack Obama's race into the debate, after Obama set out his view that the UK should remain. UK politicians from across the spectrum are setting out their stall for leave or remain, as are business leaders, celebrities from various fields, and some charities.

But charities have been warned to tread carefully when putting forward their arguments on the UK's involvement in the EU. The Charity Commission issued guidance on how charities should approach the referendum, and then clarifications after the first document was met with protests from the sector.

The UK's membership of the EU is not an incidental issue. It cuts across the welfare of Britons, the success or otherwise of the economy, the operation of the legislature, the management of natural resources, and a huge amount more. Charities (and, crucially, their beneficiaries) will be acutely affected by the outcome of the referendum.

As Sir Stuart Etherington pointed out when publishing an NCVO briefing on charities' participation in the debate around the referendum, some charities will be impacted more than others. Many will not see participating as a good use of resources. But many will, and they should not be restricted by overzealous regulation.

Charities have uniquely valuable contributions to make, on this issue as on many others, and regulation should err on the side of enabling them to voice their views rather than shutting them out.

There is already clear regulation preventing party-political activity. And that should suffice when it comes to the referendum and charities' participation in the debate.

Of course, the referendum is just one of the battlegrounds for sector independence. There is, it would seem, a worrying trend towards shutting charities out of important national conversations (see cover story, page 23). This trend is also catalogued by recent Civil Exchange work, which author Caroline Slocock summarises on page 18.

Matt Ritchie, Editor

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Charities' participation in the debate around EU membership is the latest battleground for third sector independence, as evidence mounts that charities are being muzzled

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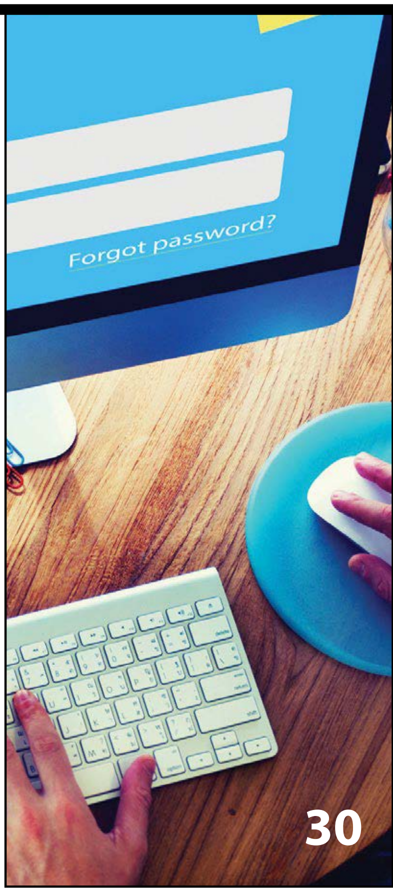

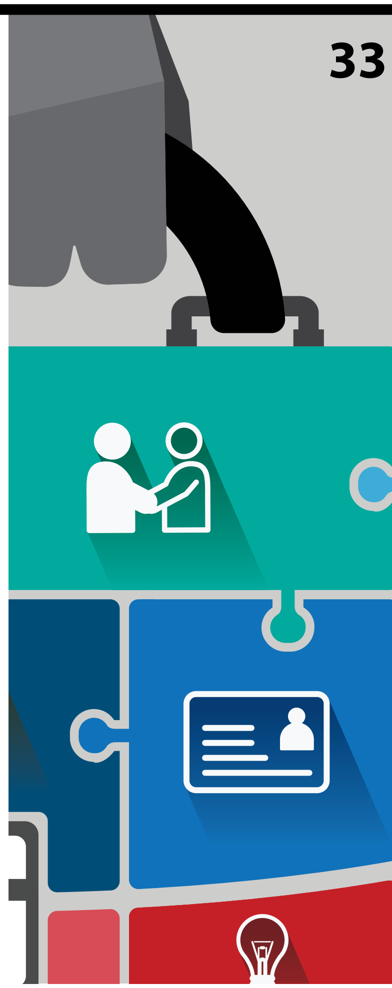

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New Big Society Capital chief executive Cliff Prior spoke to Matt Ritchie about his plans for the organisation

A NEW INITIATIVE HAS LAUNCHED TO SUPPORT BUSINESSES TO SPEND £1BN WITH SOCIAL ENTERPRISES BY 2020. The **Buy Social Corporate Challenge** launched in April at 11 Downing Street. Businesses including Interserve, Johnson & Johnson, PwC, RBS Group, Santander, Wates, and Zurich signed up to buy goods and services from the UK's social enterprise sector. Support for the partners will include the training of their procurement teams on how to source and buy from social enterprises, and the advantages of doing so. They will also receive advice on measuring the impact of their spend with social enterprises, and how to use the data in sustainability reporting and bid writing. The initiative is being led by Social Enterprise UK and the Cabinet Office. SEUK chief executive Peter Holbrook said big businesses are seeing the potential of using their supply chains, rather than corporate social responsibility budgets, to deliver social change.

A SHEFFIELD CHARITY HAS RELAUNCHED to reflect its growing role in communities across South Yorkshire. Sheffield YWCA has changed its operating name to **YWCA Yorkshire**. The charity said the move reflects its expanding range of supported accommodation projects, family support services and specialist programmes across the region. YWCA Yorkshire has also launched a training company, offering its accredited lifestyle programmes and staff training courses to other organisations. The charity runs supported accommodation projects for vulnerable young women and troubled families in Sheffield, Rotherham, and Doncaster. It also delivers specialist programmes and outreach work helping women affected by a range of issues including mental health issues, substance and alcohol misuse, leaving care, parenthood and child sexual exploitation.

THE PUBLIC FUNDRAISING ASSOCIATION HAS ANNOUNCED ITS PRIVATE SITE MYSTERY SHOPPING TRIAL IS UNDERWAY. The trial is initially for a six month period and 12 charities have volunteered to take part. They include: **Battersea Dogs & Cats Home, Dogs Trust, Great Ormond Street Hospital, Guide Dogs for the Blind Association, Marie Curie, National Deaf Children's Society, Royal Society of Wildlife Trusts, RSPCA**, and **WWF-UK**. PFRA said it will be attempting to carry out 38 mystery shops per month during the trial. As the mystery shopping will initially be done on a trial basis, there will be no levy charged. A private site rulebook has been created and circulated to the participating charities which can be updated when required. The rulebook includes requirements such as fundraisers not obstructing, interfering with, or disrespecting members of staff from local businesses. Fundraisers also must not work outside the confines of the site as dictated by the site owner.

"Many small charities did not appear to be aware of their reporting obligations, the commission found"

LLOYDS BANK FOUNDATION FOR ENGLAND AND WALES HAS COMMITTED OVER £4M IN NEW GRANTS to 90 small and medium-sized charities in the first of its three annual grant rounds. The funding will help charities with an income between £25,000 and £1m tackling disadvantage in local communities across England and Wales. The foundation has made 60 grants under its 'Invest' programme, which will help charities fund their core programmes and sustain vital services, and 30 grants under the 'Enable' programme which will help strengthen charities through developing their capacity and infrastructure. Of the 90 grants awarded, 21 per cent will help people overcome long-term unemployment, 17 per cent are focused on combating domestic abuse and 14 per cent will be supporting people to move on from homelessness. **Lloyds Bank Foundation** said funded charities will be able to invest in practical and lasting solutions and focus on the people at the heart of their work.

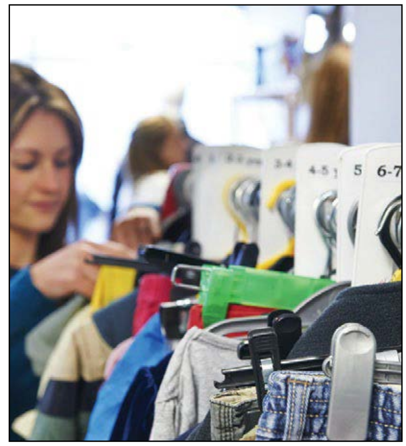
TOO MANY SMALL CHARITIES DO NOT KNOW ABOUT THEIR

REPORTING REQUIREMENTS, the regulator has warned. The **Charity Commission** has published three reports looking at the quality of charities' annual report and accounts and their compliance with public benefit reporting requirements. Less than half of annual reports and accounts for charities with under £25,000 in annual income met a minimum, basic standard, the regulator said. Many small charities did not appear to be aware of their reporting obligations, the commission found, and several small charities only sent their annual report and accounts after the commission had provided further explanation of the requirements to them. However, larger charities' reporting practices appear to be improving, the regulator said. Over 75 per cent of charities with more than £25,000 in annual income produced accounts that met a minimum basic standard in 2013-14, up from just over half in 2011-12. The commission also found that more charities are talking about their public benefit, but the regulator said the numbers doing so need to "improve significantly".

THE INCOME OF BRITAIN'S BIGGEST CHARITIES GREW IN 2013/14 WHILE THAT OF SMALLER AND MEDIUM-SIZED CHARITIES' DECREASED IN REAL TERMS. **NCVO**'s latest analysis shows the continuation of a long-term trend of growth concentrated among larger organisations. Charities with an annual income of over £10m tended to grow while overall income for smaller and medium-sized charities declined or stayed the same. The figures, based on analysis of charities' accounts as submitted to the **Charity Commission**, showed charities in the £10m to £100m annual income category saw income grow by 3.7 per cent while those in categories below £1m all saw turnover fall. Total income of charities in the £100m and over category grew 26 per cent. NCVO said this was driven partly by increases in their income but also by an increase in the size of the category as a whole with a notable number of charities exceeding the £100m threshold for the first time. Income from individuals was largely behind a 5.8 per cent increase in the income of the charity sector, NCVO said, as income reached £43.8bn.

CHARITIES HAVE CRITICISED CABINET OFFICE MINISTER MATTHEW HANCOCK for failing to address key concerns about new conditions for government grants restricting lobbying activity. Hancock in February announced plans to insert a clause into all new and renewed grant agreements to ensure groups receiving public funds do not use them to lobby for new regulation or more government funding. Over 130 charity leaders then wrote to **Prime Minister David Cameron** urging him to reconsider the proposal. Hancock subsequently responded, writing that "efficient use of taxpayers' money is paramount", and that the proposed clause is compatible with the Compact as it does not prevent charities from campaigning providing they use their own resources. However, in a joint statement **Acevo** and **NCVO** called the response "deeply disappointing". The new clause would see some organisations withdraw from the field due to their inability to separate advocacy work from their wider purpose, the organisations said.

ALMOST EVERY UK HOUSEHOLD HAS USED A CHARITABLE SERVICE and use of services increased over the past year, according to new research by the **Charities Aid Foundation**. CAF's study showed 98 per cent of households had used a charity service, compared with 93 per cent



who said the same in 2014. The proportion of households who had used a charity service in the past 12 months had increased, to 83 per cent from 79 per cent in 2014. The most common service used was buying from charity shops with 88 per cent having done so. Seventy-three per cent of respondents had visited charity-run galleries, museums, gardens or stately houses. Young families had seen the biggest increase in their use of charities since 2014. Eighty-eight per cent said they had used a charitable service in the past year, up from 78 per cent two years ago. They had also used more types of services than any other household group. The number of households using a charity very regularly has increased by over 500,000 since 2014. It now stands at 3.7 million.

"CAF's study showed 98 per cent of households had used a charity service, compared with 93 per cent who said the same in 2014"

in brief

NCVO HAS PUBLISHED A PAPER AIMING TO HELP TRUSTEES AND MANAGERS ASSESS THE IMPLICATIONS OF THE EUROPEAN UNION REFERENDUM FOR CHARITIES. The paper does not weigh the pros and cons of EU membership, but sets out a number of questions for charities to consider when assessing the impact of the referendum's outcome. Questions include whether the EU has a direct impact on the work of the charity and its beneficiaries, whether engaging in the referendum debate would help further charitable purposes, and whether a charity has plans in place for dealing with the outcome of the referendum. The paper also analyses the current debate around membership and highlights several themes specifically relevant to charities. **NCVO** chief executive **Sir Stuart Etherington** said the outcome of the referendum will be directly relevant to a number of charities, with some considerably affected. However, all charities will want to consider the implications for the people and causes they support.

NCVO HAS ALSO LAUNCHED A NEW SERVICE TO HELP THIRD SECTOR ORGANISATIONS GET MEDIA COVERAGE FOR THEIR POSITIVE SOLUTIONS TO SOCIETY'S ISSUES. The Constructive Voices initiative invites charities and social enterprises to send in evidence of their positive impact, aiming to connect them to relevant journalists. The service aims to see third sector solutions more widely reported and make a greater contribution to the public agenda. Initially the project will focus on a few themes: assisting refugees, building cohesive communities, combatting domestic violence, countering extremism, empowering people with disabilities, encouraging volunteering, ensuring LGBT equality, fostering positive mental health, growing old positively, promoting mentoring for young people, reducing reoffending, supporting school years education, tackling homelessness, and taking early action for better health. **NCVO** media coordinator Giselle Green is running Constructive Voices, and said the voluntary sector is a great source of constructive stories that need to be heard and utilised for the benefit of society.

"The voluntary sector is a great source of constructive stories that need to be heard and utilised to benefit society"

CHARITIES AID FOUNDATION'S RETAIL CHARITY BOND CLOSED EARLY AFTER RAISING £20M IN ONE WEEK. The London Stock Exchange-listed bond was launched via the Retail Charity Bonds Plc platform. The bond was created by **Allia**, a UK charity and social investment specialist, and established in association with **Canaccord Genuity**. The bonds will pay a fixed rate of interest 5 per cent per annum, payable twice yearly on 12 April and 12 October. The first coupon payment will be made on 12 October 2016. Bonds are expected to mature on 12 April 2026 with a final legal maturity on 12 April 2028. Funds raised will be loaned, via a loan agreement, to Charities Aid Foundation. CAF said the offer period for the bond closed on 29 March due to strong demand, having been expected to close at noon on 6 April.

IMPETUS-PEF HAS RENEWED ITS PARTNERSHIP WITH YOUTH CHARITY TEENS AND TODDLERS, via a package of £100,000 of funding, strategic management advice, and pro bono support. Teens and Toddlers specialises in helping young people develop their life skills by acting as mentors to children in supervised nursery environments. Established in 2001, the organisation runs a highly structured programme designed to improve behavioural and educational outcomes for secondary pupils. Impetus-PEF is a charity that brings funding and strategic resources to high-potential charities and social enterprises working with young people from disadvantaged backgrounds. Announcing the latest package of support, Impetus-PEF said the partnership with Teens and Toddlers has been one of its longest-standing. The partnership has seen over £1.5m worth of support comprising funding, management advice, and pro bono services since 2009. Impetus-PEF's support originally focused on Teens and Toddlers' financial reporting, business planning, and operational model. However over the seven years the two organisations have been working together, Impetus-PEF has helped Teens and Toddlers become a viable and attractive option for delivering social impact bonds.

CABINET OFFICE HAS ANNOUNCED A PARTNERSHIP WITH THE BLAVATNIK SCHOOL OF GOVERNMENT, UNIVERSITY OF OXFORD to create a new 'centre of excellence' for Social Impact Bonds. The five-year partnership will develop research in the field of SIBs and provide support to local commissioners. Announcing the move, Cabinet Office said the Government Outcomes Lab aims to find new ways for the public sector to commission services while achieving better social outcomes, aligning the interests of local authorities, social investors and charities. **Minister for Civil Society**

Rob Wilson said SIBs represent a "revolution" in the way government can deliver public services.

THE CHARITY COMMISSION HAS MADE "BABY STEPS" IN THE RIGHT DIRECTION WITH ITS CLARIFICATIONS TO EU REFERENDUM GUIDANCE but the document remains an "unhelpful addition to the debate", **Acevo** has said. The regulator has issued revised guidance on charities' responsibilities around the EU referendum, in response to concerns raised with the original document. Clarifications have been made around the activities the guidance covers, the various ways to engage in the referendum and the associated risks, and trustees' responsibilities in safeguarding their organisations from exploitation by third parties. Acevo director of public policy **Asheem Singh** said the guidance "remains pedantic", and "risks shutting out important voices". It would be better to withdraw the guidance than "produce yet more unworkable iterations of a flawed document", he said.

BARCLAYS HAS OVERTAKEN NATWEST AS THE MOST USED BANK BY THE TOP 5,000 CHARITIES, according to a new report. However, **Charity Financials**' bi-annual Banking Spotlight found **NatWest** remains the largest player by cash held for the top 5,000 charities, with £3.27m compared to Barclays' £2.76m. The biggest increase in cash held was at **HSBC**, up £331.7m, while Barclays added £90.8m. To be included in Charity Financials' top 5,000 charities, an organisation must have either an annual income

Photo credit: pcruciatti / Shutterstock.com

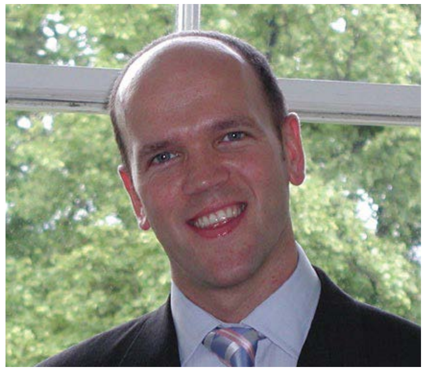
greater than £1.526m, annual expenditure greater than £1.548m, or total funds/net assets greater than £3.458m.

SOCIAL INVESTMENT DEAL-FLOW HAS MORE THAN DOUBLED SINCE 2011, according to a new **Big Society Capital** report outlining around £428m in deals offered to charities and social enterprises last year.

People on the move...

The latest appointments from around the charity sector

If you have any appointments to announce please contact matthew.ritchie@charitytimes.com



CAMPBELL CHALMERS

The Royal National Institute of Blind People Scotland has appointed Campbell Chalmers as its new director. Chalmers has worked in healthcare and the voluntary sector for 30 years. He was previously a director for the charity Chest Heart & Stroke Scotland, and more recently worked as a stroke nurse consultant in NHS Lanarkshire. He is an honorary lecturer at Glasgow University.

Photo credit: BBC

ZEINAB BADAWI

Zeinab Badawi has been appointed as a trustee of **Historic Royal Palaces**. Badawi hosts BBC's Hard Talk and Global Questions and World Debates on BBC World TV. She is the current chair of the Royal African Society, a patron of the charitable arm of the BBC, and a vice-president of the United Nations Association UK.

KAREN OSBORN

The International Glaucoma Association has announced Karen Osborn as its new CEO. Osborn spent the past nine years as CEO for Kent Association for the Blind. She has managed rehabilitation and therapeutic services at Thrive, and directed volunteer and housing support for a disability charity in London.

JOE GANNON

Carers Trust has appointed Joe Gannon as director of policy and research. He joins from Pitchfork Consulting, where he led on several assignments for the Department of Health and Public Health England. Gannon has spent much of his career working for the NHS and local Government, in both operational and strategic policy roles. Carers Trust is the UK's largest charity for unpaid carers.

JUSTIN DOWDS

Justin Dowds has been promoted to CEO at **Compassion UK**. Dowds joined Compassion in 2011 as the major donor director before taking over as the senior director of marketing and engagement in 2014. He succeeds Ian Hamilton who has managed Compassion UK for 16 years since its start-up in 2000.

EMMA RADLEY

Winston's Wish has appointed Emma Radley as director of fundraising. Radley joins Winston's Wish from the Oxford University Hospital NHS Foundation, via Oxford Brookes University where she served as head of fundraising from 2006 to August 2015. Winson's Wish needs to raise £2.5m each year.

STEPHEN HILL

Alzheimer's Society has announced Stephen Hill as chair of trustees. Hill will succeed interim chair Ann Beasley. A Cambridge graduate, Hill began his career in business consultancy, moving on to work for BCG, Guinness and Pearson. He has been involved in the digital transformation of several major companies, including six years as chief executive of the Financial Times Group.

TIM BRAWN

King Edward VII's Hospital in London has appointed Tim Brawn as director of fundraising. Brawn joins from Combat Stress, the veteran's mental health charity, where he was director of fundraising and communications. He has 25 years of business experience in both the not-for-profit and commercial sectors.

April 2016

BETTER SOCIETY AWARDS 2016
12 May 2016
Millennium Hotel Mayfair, London
The Better Society Awards are designed to recognise the efforts commercial companies make to help create a better society. With every effort the world becomes a safer, fairer place, and it is time to recognise the work commercial enterprises do to help towards this goal. Back for the second year, awards are presented across almost 25 categories, including recognition for staff fundraising schemes, commitment to the community, and charity partnerships.
http://bettersociety.net/awards/

CHARITY TIMES ANNUAL CONFERENCE
9 June 2016
Waldorf Hilton, London
Charity Times is launching its annual conference in summer 2016, creating a forum for sector leaders to get an overview of the key risks and opportunities ahead. Whether it is dealing with the shifting sands of regulation around governance and fundraising, or finding new and stable sources of income, or attracting and retaining staff and volunteers in a crowded marketplace, sharing knowledge is an important tool for ensuring continued success.
charitytimes.com/conference

CHARITY TIMES AWARDS 2016
28 September 2016
Park Plaza Westminster Bridge, London
The Charity Times Awards reaches its 17th year in 2016 and this highly successful, popular, and growing annual gala event will be bigger and better than ever. The Charity Times Awards continue to be the pre-eminent celebration of best practice in the UK charity and not-for-profit sector, and a key annual event in recognising and celebrating the best of the charity sector. Rewarding excellence across almost 30 categories, entries are open now.
charitytimes.com/awards/

Not to miss...

SOCIAL INVESTMENT FOR FOUNDATIONS
4 May 2016
Acorn House, 314-320 Gray's Inn Road, London
http://bit.ly/1ScPUYV

FUNDRAISING CONVENTION 2016
4th - 6th July 2016
Barbican Centre, London
http://bit.ly/1OIuzjt

MONEY AGE AWARDS
13 October
Millennium Hotel Mayfair
http://moneyage.co.uk/awards/

IFC 2016
18 - 21 October
The Netherlands
http://bit.ly/1VNahLn

Finance

CARON BRADSHAW SAYS CHARITIES NEED TO MAKE INVESTING IN FINANCE A PRIORITY

CARON BRADSHAW IS CHIEF EXECUTIVE OFFICER OF THE CHARITY FINANCE GROUP

Pouring money into charities without robust financial management is like pouring water into a leaky bucket. This is something pretty widely recognised by CEOs and trustees, but despite this, there's a real lack of resource being put into finance within charities.

A recent report by the Association of Chartered Certified Accountants, *State of the Non-Profit Finance Function* says "the finance function is subject to underinvestment and is not prioritised…resources are directed towards short-term planning and objectives."

CEOs and trustees know that having robust, effective financial management at the heart of their organisations is crucial – so why is it that these same leaders are reluctant to put their money where their mouths are and invest in the charity finance function?

Some of this is due to the funding that charities receive.

Many charities are unable to practice full cost recovery due to terms in the contracts they're taking on to deliver services – many of these don't factor in a charity's running costs such as finance, IT and staff skills development, to name just three. There has been a marked increase in this more restrictive funding in recent years, and a steady decline in the amount of grant funding available to charities. The Grants for Good Campaign, of which CFG is a supporter, has been set up to try and address this trend.

I think there's a cultural barrier within the sector too. When push comes to shove, many charities choose to withhold investment in their finance function in order to put more resources into the frontline. While this may be understandable in the current climate, this restricts the ability of charities to adapt, ensure their systems are robust and that they'll be able to serve the long-term interests of their beneficiaries.

Investing in finance cannot just be a one-off event. Finance is constantly evolving to meet new challenges and new regulatory needs. Finance officers need to invest in their continuing professional development, but the aforementioned report revealed that a worrying 44% of respondents didn't budget for this. This has to change, especially considering that there are some excellent, low-cost training and skills development options available for finance staff.

"WHEN PUSH COMES TO SHOVE, MANY CHARITIES CHOOSE TO WITHHOLD INVESTMENT IN THEIR FINANCE FUNCTION"

If we measured success in terms of rhetoric, the battle to put finance at the heart of charities would already be won. But while the investment decisions of charities continue to lag behind the words, we still have a long way to go.

Funders say that they want charities to show value for money and be more efficient. Yet by cutting back on funding for infrastructure support (like Community Accountants for example), they are forcing more organisations to spend more on getting financial advice and expertise than they would if there was effective infrastructure support available. We are working hard to address these issues (for example via our Esmée Fairbairn Foundation-backed small charities programme) but we cannot do it alone. Funders need to come together and ensure that these networks, on which so many of their grantees depend, do not wither in the midst of an inhospitable financial environment.

It is an obvious point, but without financial leadership, a charity is not going to achieve its objectives and this directly impacts on beneficiaries. We need to get away from considering finance as just something that we need to do in order to tick boxes for external funders and for regulators. It must be at the heart of what we do.

Until we move on from talking the talk but not walking the walk, finance will always be subject to a lack of investment. We should consider investing in finance in the same way we consider investing in any charitable project. It should be understood in the same terms. ■

Financial controls

GILLIAN MCKAY SETS OUT THE CONSIDERATIONS FOR CHARITIES ASSESSING THEIR FINANCIAL CONTROLS

Charity trustees are charged with the responsibility for the financial management of charities. A key component of the financial management is ensuring key financial controls operate to protect the charity and its assets.

The range of financial controls varies according to the size and complexity of the charity's activities. What constitutes appropriate controls will be a matter of judging what is appropriate, therefore how trustees assess the adequacy of controls will be equally wide-ranging. However, the following are starting points to consider when assessing the accuracy of controls.

Management information

A common starting point for assurance of financial control is the production of management information, chiefly the production of management accounts. It's not uncommon to find trustees who do not understand this information for a variety of reasons. Trustees may have no financial background, or there may be a financial professional on the board with whom financial management is 'parked', or the presentation of the information is in such a way that it is difficult to understand.

Trustees are jointly responsible for the financial management of the charity and therefore need to ensure barriers to understanding the finance information are removed. Financial information should be presented clearly and be jargon free. If a trustee does not understand something they should feel confident enough to ask the matter to be explained to them in plain English and the layout of reports changed if necessary.

Reviewers, internal and external

If a charity is audited the auditors are obliged to report on control weaknesses, larger charities may also have an internal audit function to review the effectiveness of controls.

These two sources identify control weaknesses. Do you ensure control weaknesses are followed up and do the responses and actions seem adequate? Do you ask for evidence, such as the updated procedures manual, that can demonstrate the weakness has been addressed?

Smaller charities rarely have an internal audit function and may not require an audit, for trustees of such charities do you visit the charity's premises to check controls are being followed and reviewed in line with procedures?

For some trustees this feels like snooping on the staff and can raise concerns of damaging staff moral through a lack of trust. It is worth remembering that the abuse of controls leave innocent staff vulnerable to the actions of the dishonest. If, as a trustee, you do not protect the staff by ensuring adequate controls exist then you are letting them down.

Trustees

Trustees often feel that finance is a new world that they need new skills to understand. In reality, trustees bring many existing skills they can employ to understand financial information.

A key skill in this respect is common sense and judgement. In a charity I once worked at the care director held had a yardstick for assessing a care service which would be to ask herself: "Would I be happy to leave someone I loved here?". The application of your own common sense and instincts should not be excluded in the assessment of controls.

If the matter discussed at meetings was not the charity's assets but your own personal assets, would you be satisfied with the information you receive and would you trust those controls? Do the explanations you receive seem logical, or do they contradict other financial or non-financial information you are aware of. Is the level of interrogation by the board and the review sufficient, can you think there are gaps not covered by the controls, is sufficient time spent reviewing controls at board level?

The review of the adequacy of controls is a vital part of governance, and trustees need to use all the resources available to them to weigh up whether they are adequate. ■

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

Standards

PETER LEWIS OUTLINES THE CHANGES UNDERWAY AROUND STANDARD-SETTING FOR FUNDRAISING

PETER LEWIS IS CHIEF EXECUTIVE OF THE INSTITUTE OF FUNDRAISING

These have been challenging times for the sector. Alongside failures in charity governance, controversy around charity CEO salaries and the sector's role in influencing policy, fundraising practice has been at the forefront of the media and political scrutiny over the last year. Combined with wider trends including easier access to information, expectations of greater transparency and more scrutiny of all sectors of the economy, polls illustrate falling public trust in charities and more questions are being asked about the work and role of charities in the 21st century.

It has fallen to all of us in leadership positions to both respond to those challenges and adapt to the changing environment.

At the Institute of Fundraising we have strengthened the Code of Practice, supported the establishment of the new Fundraising Regulator and are working with our members to respond to all the changes taking place.

Our members have taken up the baton, engaged more with their supporters to better understand their needs and are proactively changing their fundraising practices.

The next step on this journey for the institute is our planned merger with the Public Fundraising Association (PFRA). This will enable us to build a stronger, single professional fundraising membership organisation for charities which puts improving fundraising practice at the heart of what we do.

Our merger, which has already been unanimously agreed by both our boards and I hope will receive formal agreement by PFRA members in June, is central to creating this new, even more effective Institute of Fundraising for the whole fundraising community.

The PFRA has a highly regarded track record in supporting good practice in face to face fundraising, with Site Management Agreements in over 100 local authority areas and its 'mystery shopping' programme helping drive compliance with the code and reducing complaints from the public.

By combining and expanding the PFRA's expertise and track record in mystery shopping and compliance with the Intitute of Fundraising's role in providing advice, training and professional development across the entire fundraising sector, we can build the single professional membership body which is right for the new challenges and opportunities facing fundraisers.

By combining our policy, public affairs and communications teams we will give the fundraising community a stronger voice.

Our members - charities, agencies, and individual fundraisers - have also been embarking on significant change programmes. Fundraising organisations across the sector are conducting root and branch audits of their activities and re-examining how they raise their vital funds.

Several high profile charities have already announced that they are voluntarily moving to 'opt-in' systems in advance of the new EU regulations coming into effect; others have appointed compliance managers for the first time; others are investing in more specific training for their staff.

All of this is evidence that the fundraising community not only 'gets' the issues highlighted over the past year and the public and political concern, but that it is also, crucially, acting to deal with those issues.

It will of course take time for the public, the media and politicians to see the fruit of all this activity to better reflect donor preferences, to ensure higher standards of fundraising practice, better levels of compliance, and to deliver true values-driven fundraising.

Part of our strategy will be not only be to help deliver excellent fundraising for a better world, but also to show to the public, media and politicians the fundraising community's commitment to this.

It is now time for us all to not only embrace the challenges we face, but to demonstrate how the changes we are making are having an impact across the charity sector. ■

Property campaign

WHY WE NEED A CAMPAIGN FOR PROPERTY EDUCATION

This column started as a think piece and ended up as a consultation exercise. My plans are admittedly still on the drawing board but today I am inviting my fellow charity professionals to a brainstorm. All help and ideas most gratefully received.

My idea is for a campaign for property education for not-for-profits. My reason for starting to plan now is timing: I strongly believe 2016 is the year we should collaborate to achieve a systemic shift in property knowledge and premises management in our sector, before interest rates rise and the full impact of austerity economics blows in.

If my previous life as a business journalist on national newspapers taught me anything, it is that being equipped in time for change makes the difference between thriving and attracting investment or losing your market and going under. I am thinking of swathes of home grown British manufacturing from early IT and cars to china and crystal. Where is the third sector going to be 10 years from now – once property markets have finished being stoked up through quantitative easing and austerity economics have finished shrinking the state? Plus of course, uncertainty in the markets shrinking grant funding pots still further.

Since 2004 my organisation has delivered fantastic work supporting voluntary organisations with property advice but sadly so much pain can be avoided with good planning and clued up trustees. I'm talking about cases of door-stepping bailiffs, evictions, hell on earth lease negotiations, sociopathic landlords, sick joke 'asset' transfers, dodgy builders and even dodgier dilapidation bills. My colleagues are amazing, kind and patient people with huge knowledge, but surely as a sector it is time to shift emphasis to prevention through education.

Arguably since 2008 our work has been undertaken in the context of a third sector industrial revolution which has been slow, grinding and fragmented; and often suffered in isolation as so much local support infrastructure disappeared. Hence my strong feeling now that after 8 years' pain and market readjustment - and before the macroeconomic picture gets worse - we have to seize the day as a sector and help each other to build property resilience. I am considering a 3 year campaign, comprising a first class online educational offering, maybe a buddying system and getting out on the road with advice clinics and training. Key markets? - trustees, funders and staff in organisations with an annual turnover of less than £750,000. These are the people that did not come into the sector to manage property and yet cannot afford property managers.

How about a long running storyline about property management in a soap? Why not? Every storyline is everyday fare at a charity somewhere. This is a sector that according to NCVO spends £39bn a year in general expenditure - the second item of which is property costs. The sector also owns property worth £22bn - this is not buttons.

A crucial ingredient would be a way for bigger charities to transfer their knowledge and resources to help smaller ones. What role should the property industry play? What would success look like? What outcomes should we seek? How could we best measure impact?

Last week over a bottle of wine, I asked some charity CEOs for their views. It might have been the Malbec, but suggestions ranged from a statutory requirement for charity trustees to sit a property management test, to a legal requirement for funders to prove they have done due diligence on a charity's property circumstances before they issue project funding disconnected to the building it will be delivered in. I can't see either of those happening, but all good for the pot.

What about cost? I'm working on a 3 year budget and now have two property companies, a wealth manager and a high street bank asking me for details. A great strength of our sector is that we're used to doing miracles on a shoe string with in-kind support. Our besetting sin is we don't think big enough and this is where the private sector could help. Can you help? If so, email: mail@ethical property.org.uk. Subject line: 'campaign for property education' ■

ANTONIA SWINSON IS CHIEF EXECUTIVE OF THE ETHICAL PROPERTY FOUNDATION AND AUTHOR OF 'ROOT OF ALL EVIL?'

WWW.ETHICALPROPERTY.ORG.UK

Caroline Slocock

It's time for the sector to be more assertive

CAROLINE SLOCOCK LOOKS AT THE THREATS TO THE SECTOR'S INDEPENDENCE AND CALLS FOR A DEFENSE OF THE VALUE OF VOLUNTARY ACTION

Stand up for the independence of the voluntary sector or lose it - that's the key message of *Independence in Question: the voluntary sector in 2016* published by Civil Exchange in March. Threats to its independence have been growing steadily, as documented by the panel on the Independence of the Voluntary Sector over the previous four years. This latest annual assessment picks up where the panel left off and concludes this is a five-year low and a dangerous moment, with the strong likelihood of further challenges ahead.

Awareness of the problem has risen but so far the voluntary sector has been unable to stem the tide. For example, the panel called for 'gagging clauses' in government contracts to be outlawed. But the latest report finds these are now being used more widely, uncovering specific instances in the refugee and women's services sectors. The panel also called for a review of commissioning and procurement arrangements which often hamstring charities from delivering effective services, fuel predatory behaviour by larger charities toward smaller organisations, and risk the viability of an important 'eco system' of independent support by smaller voluntary organisations. Despite efforts to improve the regime by the Government and new ideas put forward by the voluntary sector, there are few signs of fundamental change.

The panel called for the Charity Commission to become genuinely politically independent and to be an effective champion of the sector's independence. The regulator undoubtedly has a difficult and sensitive job. However, a court hearing considering complaints that the Charity Commission had interfered in the independent decision making of the trustees of the Joseph Rowntree Charitable Trust in relation to advocacy group Cage uncovered evidence of undue pressure. Throughout the last year, many have expressed concerns about its treatment of Muslim charities. The panel called for a statutory Compact with teeth, a need demonstrated by recent breaches: the Government failing to consult on the "no advocacy" clause in Government contracts and to uphold the sector's right to campaign, "regardless of any financial relationship".

There are lessons to be learnt from the review of the so-called lobbying act by former panel member and Tory peer, Lord Hodgson, published since Civil Exchange's report. His recommendations would go a long way to reduce the negative impact documented by the independent Commission on Civil Society and Democratic Engagement. Without that commission, which involved sector unity, engagement with a broad range of stakeholders sceptical and otherwise, and a clear narrative about the negative impact on democracy, I do not believe we would have got this far.

Indeed, standing up for independence is not about charities fighting their own corner, it's about protecting what so many people value about our society. Voluntary activity is a critical counterbalance to the power of both the state and the corporate sector, enabling diverse people and perspectives to be heard in public policy and services and democratic debate. That role is especially important for those who have least power and influence and particularly while public services and welfare support are being cut back and reshaped.

There may be opportunities ahead for the voluntary sector to shape better public services, not just deliver them, and to ensure that all interests are represented when difficult decisions are made. Devolution is one, but the voluntary sector may struggle to win a seat around the table. Ironically, spending cuts may also force a rethink of the public sector reform model based on competition, as the 'race to the bottom' on price it creates is already showing signs of serious strain, for example, in social care.

However, opportunities for greater dialogue are threatened by the Cabinet Office's announcement in February that all taxpayer-funded grants across government will include a clause to prevent these funds being used to influence Parliament, government or political parties, unless specific exceptions are made. It was all the more surprising coming from a Government that still professes to promote the Big Society and open policy-making.

A strong whiff of double standards hangs in the air. Before the 2010 election, David Cameron promised to tackle what he described as 'secret corporate lobbying.' There has since been a largely ineffective register of professional lobbyists and measures that have curbed the voice of the voluntary sector without clear justification. The reason cited by the Government for its 'no advocacy' clause is an Institute of Economic Affairs (IEA) report concluding charities and others receiving state funding are only calling for a larger state and more state action. The IEA refuses to disclose its funders, amidst allegations that it has been supported by major tobacco companies, and of donations by the IAE's Chair to the Minister who made the announcement.

The change will particularly affect organisations that have limited or no resources for policy work without government funding. It also will fuel a growing negative climate around the advocacy work of charities and will contribute to self-censorship.

This negative climate is not helped by the recent wave of controversies around charity operations – including poor fundraising practices and the alleged selling of inappropriate commercial products. This has left the rest of the sector more vulnerable to attack and proves the need for some larger organisations to make sure they are being true to their independent, charitable purpose. There are also signs these controversies have eroded public confidence and trust, the very lifeblood of the sector.

As the panel concluded, we are seeing an erosion of respect for the value of an independent voluntary sector. Sadly, over the past five years, the voluntary sector has increasingly lost control over the narrative about what it is for and organisations like the IEA have come to the fore. Increasingly the sector is being portrayed as a vested interest, that has inappropriately strayed into political or commercial activity, or both, rather than as a source of independent knowledge and expertise.

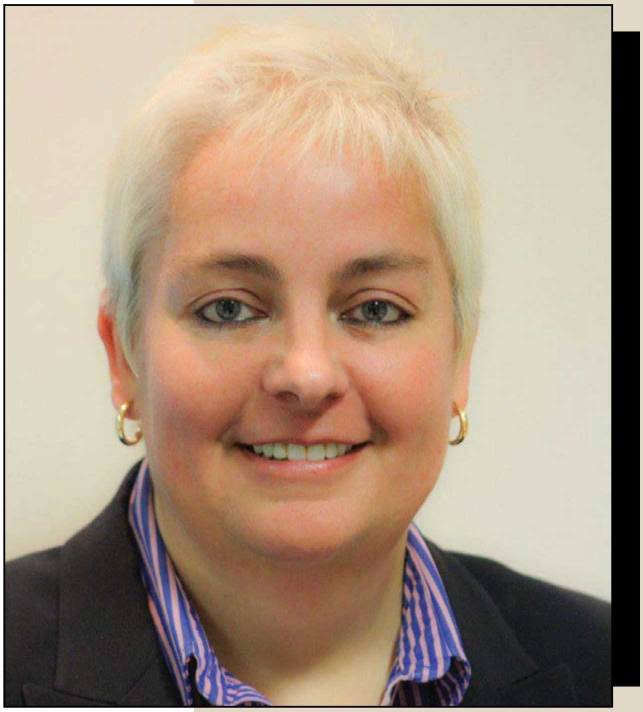
One reason is that, as more public services have been contracted out, successive governments have treated the voluntary sector like an arm of the state and encouraged it to become more business-like. This trend has to an extent been embraced by the sector. It's now commonplace for the third sector to justify its importance in terms of its turnover and the numbers of people it employs, rather than through its connection to diverse communities, its expert knowledge, its independent voice. And yet that's where the unique power of the third sector lies and is the very source of its independence.

It's time for the sector to be more assertive and collectively stand up for the distinctive value of independent voluntary action as a force for good, not just as a deliverer of services; and for every charity to demonstrate they remain true to their charitable purpose in all they do.

All parts of the sector and wider stakeholders must be engaged in this process. The starting point should be not the status quo but how the sector could be even better at carrying out its independent role. Reconnecting with its purpose and those its serves is a critical part of that process. ■

CAROLINE SLOCOCK IS THE DIRECTOR OF CIVIL EXCHANGE AND THE PRINCIPAL AUTHOR OF 'INDEPENDENCE IN QUESTION: THE VOLUNTARY SECTOR IN 2016' AND EARLIER REPORTS BY THE INDEPENDENCE PANEL. THIS WORK HAS BEEN GENEROUSLY SUPPORTED BY THE BARING AND LANKELLY CHASE FOUNDATIONS

Profile: Sophie Andrews



Help on call

BEST NEW CHARITY 2015 WINNER THE SILVER LINE HAS EXPERIENCED RAPID GROWTH SINCE LAUNCH IN 2013. CHIEF EXECUTIVE SOPHIE ANDREWS TALKED MATT RITCHIE THROUGH THE CHARITY'S UNIQUE OFFERING AND THE CHALLENGES AHEAD

The Silver Line, officially launched in November 2013, is the UK's only free 24-hour helpline for older people. It also offers companionship for older people via prearranged outbound calls, and has more recently expanded into a letter-based service, Silver Letters. As it grows, the charity is branching out into other services in-line with its core offering.

But the young charity is taking care to stay close to its USP. Sophie Andrews is Silver Line's chief executive and was its first employee, and says the charity exists to complement not compete with other charities.

"When we first started we piloted our idea to see if anybody would actually call us," Andrews says. "We didn't want to start a new charity that might be duplicating what's already there. We were very prepared if we were duplicating what was there or if we weren't needed to pack up and go away."

Silver Line

The Silver Line was set up by veteran BBC journalist and ChildLine founder Dame Esther Rantzen.

Although there are many services available for older people, it became evident that there may be a gap in anytime provision of support in the form of information, friendship, and advice.

"Samaritans are 24 hours for people in distress who may be suicidal or depressed, but for older people it might be quite difficult to ring an organisation like that because they might feel it's not a critical emergency situation," Andrews says. "Perhaps older people don't want to be a burden so wouldn't necessarily ring a helpline if they thought they were blocking the line. We wanted to make it very easy for people, so we say: 'if you think it's for you, it's for you'."

Andrews herself could hardly have a more appropriate CV for the role of chief executive of the young charity.

After a career in blue chip call centres, including as a call centre manager for Marks & Spencer, Andrews moved into social care managing residential care homes for the elderly. Meanwhile, she became a volunteer for Samaritans.

Andrews worked her way through various roles in the organisation, to become national chair in 2008. A role as head of volunteering at NSPCC brought Andrews into regular contact with Rantzen, who approached her to help in the set-up of what would become Silver Line.

"It was a scary challenge but a brilliant opportunity to set something up from scratch. A bit daunting!"

Along with the challenges in front of any new organisation, Silver Line's very purpose means it faces an uphill task, aiming as it does to provide services to those who are isolated and hard to reach.

A pilot study, carried out over November 2012, saw a nascent Silver Line work with Manchester City Council and explore ways of reaching older people who may be experiencing loneliness or isolation.

Silver Line had to pursue innovative approaches in order to reach those that existing services were not getting to.

"The key for us was to work with pharmacies, so where people might have a home delivery of their prescription, putting little cards in with their home deliveries. Thinking about people who maybe receive meals on wheels, or have carers visiting. In most cases it's someone actually recommending us," Andrews says.

The pilot proved there was a place for the offering, and as the charity has developed and grown it has taken advantage of other avenues. Media coverage has contributed to increased awareness, and Andrews says having such a high profile founder has helped the charity grow quickly.

"It's the 'Esther factor' – and I mean that in the most affectionate way. Esther has been our greatest asset and certainly she's opened doors."

Income

The charity's famous founder, instrumental in the launch of ChildLine almost 20 years earlier, also helped in securing the funding required to get Silver Line off the ground.

The Department of Health provided around £50,000 of initial funding to get the ball rolling, before Comic Relief provided further funds to get the charity through the first few months of operation and fund Andrews' salary.

But there was a step change in Silver Line's scale when the charity secured a £5 million grant from the Big Lottery Fund, spread over the first two years of the charity's operation.

With a famous founder and an enviable balance sheet, Silver Line was under way. But Andrews says that in those early days it was still very much a small charity despite its resources and rising profile.

"With the funding came the perception that we had everything sorted and we were bigger than what we were. Almost from day one that's been a big challenge. In the early days people used to ring up and ask to speak to the FD and I'd say: 'speaking'. Can I speak to HR – 'speaking', can I speak to comms 'speaking'. It was really smoke and mirrors in those first few months, we were really punching above our weight with a very, very small team."

Silver Line recently received another two-year, £5 million Big Lottery grant, and Andrews says the charity's income for the last financial year will be around £4 million. About £1.5 million of that was provided by foundations and corporate partners, who both have been important funders in the charity's early days.

Individual giving will in future represent an increasingly important part of the funding mix, Andrews says, but the chief executive acknowledges the challenges involved in public fundraising. Legacy income will likely be important given the nature of the charity, but Andrews accepts that this is not guaranteed.

"For us it's about partnerships. I'm very keen that we work with national charities and put bids in together, so we can get some statutory funding and work together with others. It is about collaboration rather than going to the door of the same funders and trying to compete with each other."

Collaborate, not compete

Andrews frequently returns to the idea that Silver Line has been established to fill a niche, and complement existing charities. Given the uncertain funding environment incumbents could quite understandably be frustrated that a new charity is launching to further crowd the space.

"We're clear that we're here to offer information, friendship and advice. We're fundamentally a phone service with letters now added on. It would be easy to creep into face-to-face services, but actually there are lots of other people doing that. I think it's very important we don't duplicate what's there already. Our USP is 24-hour service, and that's what we should really be majoring on. That's where we provide the important service when others aren't there."

And Andrews says the signs are good so far that Silver Line can in fact connect existing

"OUR USP IS 24-HOUR SERVICE, AND THAT'S WHAT WE SHOULD REALLY BE MAJORING ON"

services with individuals who may benefit from assistance, but due to their personal circumstances were previously too hard to reach. Over half of Silver Line callers are referred to other organisations and community groups.

There is also evidence the charity is meeting its objective to help older people who are at risk of or suffering abuse. Five per cent of callers have shared details of historic or current abuse. Silver Line is also working with the care sector towards ensuring those living in care settings are aware of the service.

"We're working in partnership with care homes, and talking to people at Care Quality Commission and saying that a good care provider will have no problem giving these leaflets out and giving access to a telephone. It would be great if they could make that part of their inspection regime – that individuals in their homes could have access to our confidential number."

"WE DON'T WANT TO BE THE GREATEST IDEA THAT POPS UP AND GOES AWAY AGAIN, WE WANT TO MAKE SURE WE'RE SUSTAINABLE"

Silver Line works in partnership with the Samaritans and a range of other charities and networks towards ensuring the support offered and available to older people is appropriate to their needs.

Volunteers

At two and a half years' old, Silver Line's reach is already vast. The helpline fields around 1,500 calls a day, and is on track to take its millionth call in the third quarter of this year. The Silver Line Friends service makes about 3,000 calls per week, and another 1,000 calls are made to older people waiting to be matched with a Silver Line Friend. The relatively new Silver Letters service sees around 200 volunteers writing letters every fortnight.

Significant human resources are required to deliver such a large service. The helpline is currently run by paid staff, but Andrews says volunteers will be integrated into this part of the offering over time.

Volunteers have not so far been hard to come by, but the matching process is carefully managed to maximise the chance of the older person and the volunteer making a connection. Silver Line looks for volunteers with empathy, and seeks to match Silver Line Friends with common interests.

"It's quite an easy ask to be honest because it's not a traditional counselling role," Andrews says. "We're looking for people who are prepared to talk a bit about themselves, and it's not been too hard finding people that are happy to give half an hour/45 minutes a week to make a call from their own home."

Silver Line is also generating its own volunteers. The charity set a target early on that 5 per cent of those who use the service would become Silver Line Friends themselves, which, if successful, will provide a significant pool of volunteers into the future.

"If over time the confidence of people receiving calls grows to a point where we can say to them 'you're great to talk to, would you like to talk to someone else?' and they then become volunteers then that's a big measure of our success."

The future

Andrews says the future will see the charity develop hubs across the UK, providing opportunities for people who wish to volunteer time outside of their own homes work out of regular locations and supplement the charity's paid staff.

There has also been international interest in the service, Andrews says, but taking the charity overseas is not on the agenda. However, she says the charity is mulling how the model may be exported, possibly via a membership organisation or umbrella approach.

First and foremost though, Silver Line is seeking to establish a financial bedrock. Statutory funding will hopefully play a part in this, Andrews says, as the charity seeks to generate income from the savings it provides Government through reducing the numbers presenting to ambulance or A&E services, for example.

"Our biggest challenge now - and it will continue to be - will be raising funds and remaining sustainable," Andrews says. "We don't want to be the greatest idea that pops up and goes away again, we want to make sure we're sustainable for the very long term." ■

INDEPENDENCE

Is the sector losing its voice?

Charities' participation in the debate around EU membership is the latest battleground for third sector independence, as evidence mounts that charities are being muzzled

WRITTEN BY JOE LEPPER, A FREELANCE JOURNALIST

Charity sector independence is hanging in the balance, according to a hard-hitting report published last month by the think tank Civil Exchange.

Independence in Question pulls no punches in its condemnation of recent Government policy, which it says is attacking charities' ability to provide an independent voice for its beneficiaries on issues ranging from housing policy to women's causes.

Meanwhile, the report says little is being done to address corporate lobbying. This stance is "increasing the power imbalance in society" especially between the private and charity sectors, says the report.

The Cabinet Office's decision this year to insert a 'no advocacy' clause in public sector grant agreements, to stop government funding of charities' political campaigning, is among a raft of recent ministerial decisions criticised in the report.

Lobbying act

The Transparency of Lobbying, Non-party Campaigning and Trade Union Administration Act also comes under fire.

This law stipulates that any charity, spending more than £20,000 in England, or £10,000 or more in other parts of the UK, on activities that can "reasonably be regarded as intended to influence voters to vote for or against political parties" has to register with the Electoral Commission as non-party campaigners and submit details of campaign spending and activity.

The legislation, commonly known as the lobbying act, has been widely derided across the voluntary sector with Acevo among others calling for it to be repealed.

Chief complaints are that it places an unfair administrative burden on charities and is unnecessary, as political campaigning is already regulated by the Charity Commission.

A review of this controversial legislation was completed by Lord Hodgson in March. Although his report stopped short of recommending it be repealed he did put forward around 30 changes.

These include reducing the regulated period before a general election to four months rather than a year and clarifying its definition of "procuring electoral success" to only cover campaigning that is clearly intended to influence voters' choices.

Hodgson believes his review has struck "the right balance" to ensure the law "will better reflect the realities of third party campaigning".

But charity sector reaction has been mixed. NCVO chief executive Sir Stuart Etherington says Hodgson's recommendations offer a "sensible package of reforms" that bring "much needed clarity".

Acevo chief executive Sir Stephen Bubb is a little more cautious saying the recommendations are "a good first step" to ensuring "charities are not unduly silenced".

Meanwhile, Jay Kennedy, director of policy and research at the Directory of Social Change, is concerned the recommendations offer a confusing mix that on one hand narrows the focus of the law for charities and on the other widens it again.

Independence

> *"Step by step there have been more challenges to the independence of charities, which is in real danger"*

Clarification on ensuring the law only covers campaigning that is clearly intended to influence voters is welcome for "making the net smaller," says Kennedy.

But Hodgson "appears to be widening the net again" when recommending changes to the law's definitions of "the public" and "committed supporters" in terms of campaign costs that are covered by the law, Kennedy adds.

Currently campaigns aimed at committed supporters are excluded, but Hodgson says this is "no longer tenable" largely due to social media blurring the lines between a charity's supporters and the public.

Kennedy says: "So for example if you have a charity newsletter that only goes to members that will not count as a cost. Hodgson is saying that doesn't wash anymore and anything you put out there is basically public."

Charities could face an even bigger administrative burden, warns Kennedy, as Hodgson is calling for a requirement on charities to submit information regarding planned activities around electoral campaigns and having to state on all "relevant material and their internet and social media homepages" that they are registered with the Electoral Commission as a third party.

Simon Francis, co-chair of the Public Relations Consultants Association (PRCA)'s charity and not for profit group, which represents charity lobbyists and communicators, also has concerns around Hodgson's recommendations.

He says that only "70 per cent" of the PRCA's wish list for change was met by Hodgson, with its call for the financial threshold to be raised a key recommendation that was rebuffed.

"It doesn't want to make allowances for inflation. That may not be a short term problem but it will be a long term one," he says.

Francis is also concerned over potential changes to definitions of 'the public' and 'committed supporter', which looks likely to mean "more charities may need to register as those staff costs and expenses involved in supporter communications would also count towards the financial limits".

Will the recommendations be adopted? Kennedy is sceptical and believes ministers will not be keen to reignite the debate over the law. However, Kennedy concedes ministers would not want to be seen to "completely ignore" the report.

EU referendum

The EU referendum has emerged as another battleground in the war over charity independence.

Last month Friends of the Earth, The Wildlife Trusts and Greenpeace all made public comments backing EU membership.

Among those to support their involvement in the debate was EU membership group Stronger In. A spokesperson backed charities' "duty to act and speak out in the interests of their beneficiaries".

"People need to hear all sides of the story on Europe, and it is important that their voices aren't stifled in this debate," the spokesperson added.

But the Charity Commission appeared to be less keen, issuing guidance shortly afterwards saying that only in "exceptional" circumstances should a charity advocate a particular outcome in the EU referendum.

Following criticism from among others the NCVO, which accused the regulator of setting the wrong tone, this guidance was hastily revised. But even this updated version failed to satisfy many in the sector. Acevo director of public policy Asheem Singh says it "remains pedantic" and "risks shutting out important voices."

Civil Exchange director Caroline Slocock notes how different the Charity Commission's stance on the EU referendum was to its Scottish counterpart, the Office of the Scottish Charity Regulator (OSCR), whose guidance was "much more permissive in its tone".

She was particularly impressed with the OSCR's encouragement of charities to join the debate, with OSCR chief executive David Robb saying that "charities have a recognised and important role in our society, and for many campaigning is a legitimate part of their work".

Pat Venditti, Greenpeace UK programme director, is also critical of the Charity Commission's guidance condemning it as a "suspiciously-timed shot across the bow" with the aim of deterring "civil society groups from talking about the EU referendum".

Kennedy is particularly concerned that the Charity Commission may have strayed beyond its remit. "It shouldn't be up to the Charity Commission to determine how often a charity will decide that it is in their interest to take a position on the referendum. It should be there to say what the rules are, that's all."

After five years of reporting on threats to charity independence Slocock laments how concerns, such as the lobbying act, Charity Commission guidance and gagging clauses, have built up over time.

"Step by step there have been more challenges to the independence of charities, which is in real danger unless the voluntary sector defends itself," Slocock adds. ■

RETAIL

Charity shops temperature check

Charity Shops are integral to both fundraising and visibility. In difficult times for retail generally, how are they holding up?

WRITTEN BY TOM COLLINGE, A FREELANCE JOURNALIST

Charity shops are a high street institution. Since Oxfam opened the first charity shop in the UK in 1947, the number of charity shops has continued to rise. There were estimated to be just over 5,000 in 1997, which in less than 20 years has more than doubled to 10,300 today.

Currently raising approximately £290 million for good causes, charity shops have become an invaluable part of the sector's funding mix.

Recently though, there have been reports of a slowdown in growth; so what are the issues for charity retail in 2016?

The living wage

Perhaps the most significant measure in his March 2016 budget, George Osborne's National Living Wage (NLW) has massive implications for the entire retail sector, charity shops included. The increase to £7.10/h from £6.70/h for adults over the age of 25 came into force on the first of April and equals the highest ever previous rise. The wage is then supposed to escalate annually, based on 60% of the typical worker's hourly salary and should reach £9.35/h by 2020.

The Third Sector Research Centre has estimated the NLW will cost the charitable sector around £500 million by 2020 with a large portion of that likely to be associated with charity shop staff salaries. While that is a significant figure, charity shops are actually better placed than most retailers to deal with the wage hike, due to the fact that most are responsible employers.

"There's something in the region of 18,000 jobs in the charity retail sector and most of those are paid above the living wage anyway" says Robin Osterley, Chief Executive of the Charity Retail Association, indicating that while the costs are real there will not be a dramatic swing in wage bills through the NLW alone.

Photo credit: Lenscap Photography / Shutterstock.com

Business rates

In the same budget, the Chancellor chose not to change the business rate relief for charities, much to the relief of the sector. There had been some concern that, as part of his drive to totally devolve business rates to Local Authorities by 2020, George Osborne would tinker with the 80% of business rates that charities do not have to pay the so called statutory relief.

He did not and while this has been welcomed, there is still concern over the other 20%, the discretionary relief, which councils can set at whatever rate they choose between 0-20% and which is coming under increasing pressure. As the cuts bite, Local Authorities which find their budgets stressed are looking for ways shore up income.

Andrew O'Brien, head of policy and engagement at the Charity Finance Group says his organisation has seen "a clear link between those local areas which are receiving the biggest cuts and those looking to consult on business rates because they have a duty to maintain statutory services."

When the choice local authorities are faced with is between cuts to charity shops or schools, O'Brien says, "we know where they're going to land."

Gift Aid

Over at HMRC, there has been a clarification of the rules around Gift Aid as they pertain to charity shops. There had been concern that the current rules could be interpreted to mean that charities had to contact people who had donated goods each time an individual item was sold to request the Gift Aid. This would have imposed a heavy bureaucratic

burden, but thankfully, through working with the Charity Retail Association and other industry bodies, HMRC's new guidance only requires charities to contact these donors once a year.

This fulfills charities' legal obligation to provide donors with a right to refuse Gift Aid on their donation. The guidance also ended confusion over who was liable if a donor misrepresented their tax status (thus making them not eligible for Gift Aid), with responsibility being placed squarely with the donor, not the charity.

These changes have cleared up what was an intimidatingly complex system, especially for smaller charities, and means we should expect to see a growth in Gift Aid income through charity shops in the coming years.

Rag price

Income through 'rag' or clothes not sold in store but recycled or sold abroad has fallen.

Textile prices have been falling globally since 2013 and Alan Wheeler, director of the Textile Recycling Association says "downward pressure on prices for used clothing is inevitable for some time to come". This price squeeze cuts income for charity shops and others in the supply chain, with Wheeler reporting that 23% of his members have gone bust since 2013.

To understand why this is happening one needs to look overseas. Most of the recycled clothing is sold abroad and as African and Asian economies grow, people in emerging markets are less keen to purchase second hand clothes. Indeed, importing recycled clothing is often seen as harmful to the local economy which explains a move by the West African states of Kenya, Uganda, Tanzania, Rwanda and Burundi to ban imports of used clothing by 2019. These countries account for 10% of the UK rag market so it is likely the impact on incomes will be noticeable.

Technology

With the shifting environment not entirely positive for charity retail, the good news is that charities are rising to the challenges they face. One of the key ways they are doing this is by using the opportunities afforded by modern technology, including shifting retail operations online.

British Heart Foundation, for instance, has the largest eBay store of any charity, which as Mike Taylor, retail director explains, allows it to: "Optimise the products that are inherently valuable and realise the value of things which are highly unusual". For example, a reel to reel tape recorder could be worth hundreds of pounds to a collector but could find itself gathering dust in a local charity shop. A pallet of 1,920 make-up brushes would also be difficult to shift via the shop front but is currently the most valuable item on the BHF eBay store, priced £5,760 at the time of writing.

While British Heart Foundation runs its ecommerce through a central office in Leeds, smaller charities can take advantage through cloud based services, such as those offered by Cybertill, which allow staff in store to register items on eBay. Items can even remain on the shelves and potentially be sold in the shop right up until a buyer is found online.

Other digital technologies, such as barcode systems, have enabled charities to simplify both their pricing and Gift Aid administration. This is not only more efficient but the creation of electronic records also opens up a range of possibilities in terms of loyalty card schemes of the kind traditionally used by Tesco or Sainsbury's. Such cards could allow donors and customers to be given feedback on the impact their donation or purchase is having and could even go as far as linking to other support the individual has offered the charity, such as through volunteering, regular gifts and fundraising activities.

The value of this integration is much more than monetary and perhaps heralds a new role for charity shops. One that is not only focused on generating immediate income for charities but one which helps build loyalty and demonstrate impact. ■

Did you know?

Almost all (96%) of goods donated to charity shops are reused or recycled, taking huge pressure off local waste disposal services, dramatically reducing the amount of rubbish that goes to landfill and making a positive contribution to our environment.

Source: Charity Retail Association.

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Section A: For Charities And Not-For-Profit Institutions

1. Charity of the Year: with an income of less than £1 million
2. Charity of the Year: with an income of £1 million - £10 million
3. Charity of the Year: with an income of more than £10 million
4. Best New Charity
5. Change Project of the Year - **NEW CATEGORY**
6. Rising CEO Star
7. Fundraising Team of the Year
8. Charity Principal of the Year
9. Campaigning Team of the Year
10. Best Use of the Web
11. PR Team of the Year
12. International Charity
13. HR Management Award
14. Financial Management Award
15. Social Investment Initiative
16. Community Award
17. Fundraising Technology Award
18. Excellence in Internal Communications - **NEW CATEGORY**

Section B: For Charity/Corporate Partnerships

19. Corporate Community Local Involvement
20. Corporate National Partnership Champion
21. Corporate National Partnership of the Year with a Retailer
22. Corporate National Partnership of the Year with a Financial Institution
23. Cross-sector Partnership of the Year
24. Corporate Social Responsibility Project of the Year
25. Best Use of Technology

Section C: Professional Services Category

26. Investment Management
27. Boutique Investment Management
28. Advisory Provider of the Year - **NEW CATEGORY**

Section D: Individual Awards

29. Outstanding Individual Achievement

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ADMINISTRATION

Reputation and regulation - data management

Bad data management exposes charities to regulatory and reputational risk, as seen during recent fundraising scandals. New rules could help win back public trust

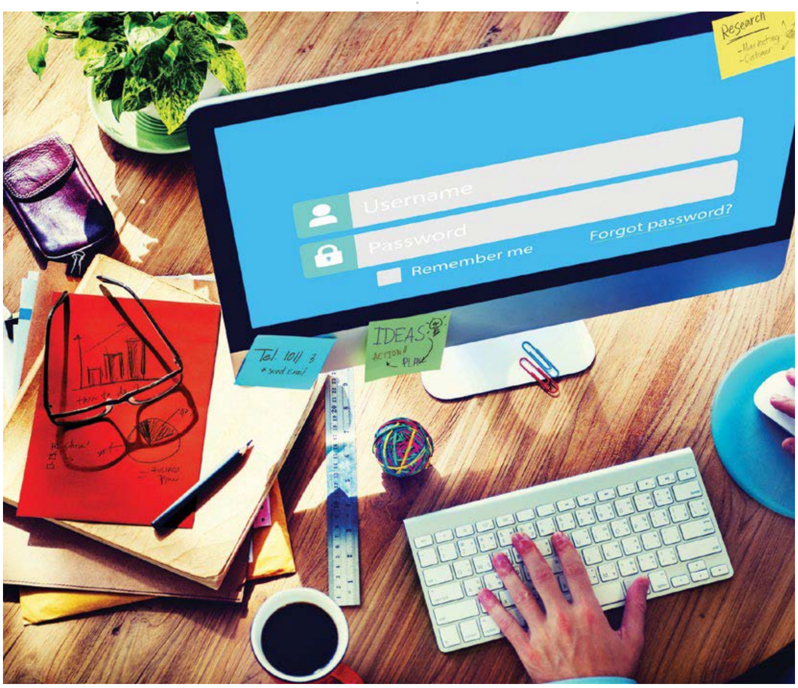
WRITTEN BY SOPHIE MCINTYRE, A FREELANCE JOURNALIST

Last year was an annus horribilis for the charity sector. Vast swathes of negative press coverage resulted in charity leaders dragged in front of MPs, fundraising campaigns pulled and fundraising agencies forced into administration with the loss of almost 500 jobs.

Dodgy data management was one factor contributing to the maelstrom. Stories abound of potentially illegal list swapping, of individuals being "harassed" by telephone fundraisers, of failing to comply with the rules of the Telephone Preference Service. The list goes on…

This was not the first time charities had faced criticism for data management practices. Back in January 2015, the Information Commissioner's Office (ICO) had ordered the Alzheimer's Society to take action after finding it had been handling and storing data inappropriately - unsupervised and poorly trained volunteers had stored unencrypted data on their home computers and had failed to store paper records safely.

Going back even further, to early 2014, the British Pregnancy Advisory Service (BPAS) was fined £200,000 for a data breach that revealed almost 10,000 people's details to a hacker.



The impact of such stories stretches far and wide.

"The reputational risks of poor data management are huge," says John Mitchison, head of preference services, compliance and legal for the Direct Marketing Association and a member of the working group for the new Fundraising Preference Service (FPS).

"The Daily Mail coverage had an immeasurable impact on charities… the underlying cause of it all was the source and management of data. Charities were accused of using supporter data in a way that wasn't in accordance with PECR [Privacy and Electronic Communications Regulations] or the Data Protection Act, and of not properly recording their donor's permissions or consent for data use," he says.

There are many in the sector who would dispute these claims – it has been argued, for instance, that the TPS rules allowed for the contact of TPS-registered people who had previously given, based on the assumption that donors would want to hear from the charities they had

supported. Meanwhile, ICO investigations into the charities and agencies featured in the stories have so far found little evidence of law-breaking.

However, regardless of the nuances, these high-profile reports of malpractice threw the sector into disrepute, denting trust and confidence, and leaving a sour taste in the mouths of many a charity supporter.

It isn't just the reputational damage associated with poor data management that charities need to worry about. There is much more at stake than simply negative media coverage, says the ICO's enforcement manager Andy Curry. He warns that charities risk the wrath of the regulatory authorities if they don't take better care of their data, something which could result in a large fine – as BPAS was to discover. In addition, there is "a risk that the Government considers that the current self-regulatory set-up isn't working", which could lead to more draconian rules.

Indeed, changes to the rules and regulations are already happening.

The Fundraising Preference Service

A recommendation made in the Etherington review of fundraising self-regulation, the Fundraising Preference Service will enable people to opt out of charity communications, providing them with greater control over the fundraising communications they receive and who has access to their data.

A discussion paper, published in early March by the new Fundraising Regulator, suggested that an optional opt-out then opt-back-in model would be used – members of the public can choose to opt-out of all fundraising communications and can then opt back in to communications from their chosen charities.

While the consultation is at an early stage, many charities are worried. Not only is it believed that the FPS model is too complex – requiring people to complete three registration forms, which may contribute to even great frustration - but it is anticipated that the new opt-in requirement will result in the loss of £2bn of income, according to research by the fundraising think tank, Rogare.

Indeed, those charities that have already begun to introduce new opt-in-only policies for their fundraising communications have estimated they stand to lose millions. The RNLI is one such organisation - it has stated the move will cost the charity around £35.6 million between now and 2020, the equivalent of 19% of the charity's 2014 total income.

However, Cancer Research UK, another charity that has taken steps to introduce opt-in-only policies, believes that while the short-term impact on income will be significant, over time it will have a beneficial impact on the charity's relationships with its donors – indicating that playing the long-game has the potential to be a successful new approach to best practice.

Of course, consent to be contacted is only one part of data management. The Institute of Fundraising has also recently changed its Code of Practice to prohibit the sharing of an individual's data with third parties without that individual's express permission. Permission can be granted either through ticking an opt-in box, or another action that signifies agreement, such as oral confirmation. People can also express permission by providing their contact details as long as they were clearly informed that by doing so they agree to their data being shared.

The Information Commissioner's Office

The Etherington Review also recommended that the ICO should produce specific guidance outlining its regulatory approach on charities and fundraising. Subsequently, the ICO has issued revised cross-sector guidance on direct marketing. Although it is not charity specific, it does contain an expanded section on the not-for-profit sector.

"We committed to providing clear

guidance for charities around marketing when the Information Commissioner appeared in front of the Public Administration and Constitutional Affairs Select Committee in October 2015. Our new guidance does just that – and adds practical examples which we hope are helpful to charities when undertaking fundraising activities," explains Curry. These include identifying the differences between administrative and marketing communications, and examples of what counts as consent to be contacted again.

By way of indication as to the feeling within Westminster about this issue, the Government is considering granting the guidance statutory status.

And let's not forget the ICO's role in ensuring that data is kept secure. The Data Protection Act stipulates that: "Appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data." Given that there is no "one size fits all" solution to information security, the ICO recommends that charities adopt a risk-based approach – in particular focusing on the need for physical and technical security that is appropriate for the data they hold – be this secure email accounts, encryption and biometrics - and backing this up with robust policies and procedures, reliable and well-trained staff, and a plan of action that will enable them to respond to any breach swiftly and effectively.

EU General Data Protection Regulation

Charity marketers do not only face changes at a domestic level. EU-level reform of data protection laws is also underway, something the NCVO has described as "one of the major challenges facing charities over the next couple of years".

The final documents are yet to be approved, but according to the Direct Marketing Association (DMA), the EU GDRP will cover areas such as: the definition of personal data; the definition of unambiguous consent; individuals' right to opt-out of communications at any time; and new rules around profiling.

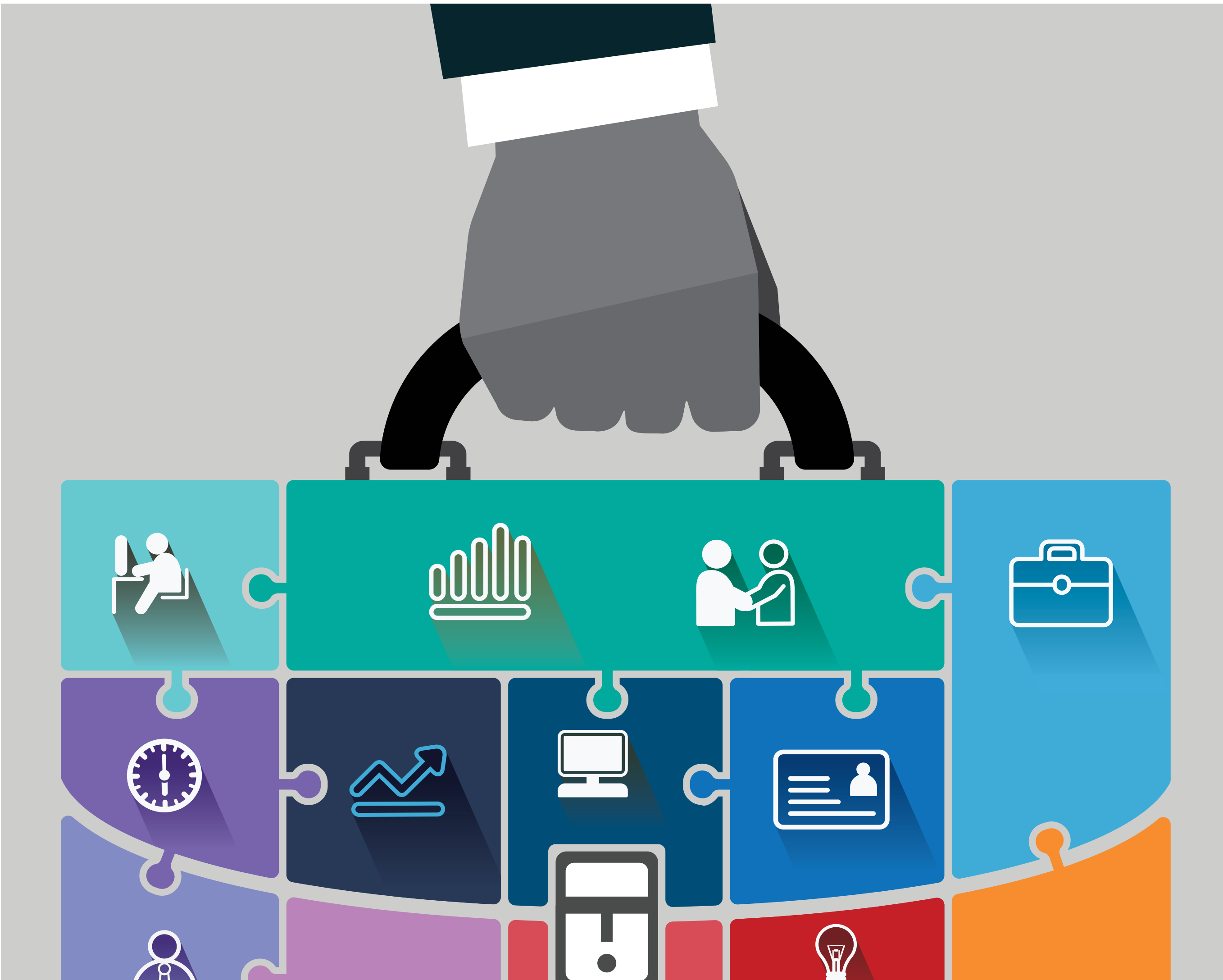
There is potential for these rules to be significantly more onerous than what is presently in place, and may even render the FPS redundant; recent drafts have recommended that any communication from commercial or charitable organisations is only acceptable on a one-time, opt in, basis.

The legislation, which is far-reaching and covers data management and security as well as contact, is currently working its way through the EU parliament and is expected to come into force in 2018. Charities wanting to get a sense of the scale and scope of the new rules should read the ICO's 12 steps to take now report, available to download from its website.

In the past year, the charity sector has suffered massive reputational damage due to poor data management. The media, the Government and regulators have now cast their verdicts and the tightening of regulation is less than surprising. Charities must now look closely at how the changes affect their operations and aim to manage their data with responsibility and due diligence in order to win back the hearts of the public. ■

Investment focus:

VALUE & MEASUREMENT



Measuring up

Quilter Cheviot head of charities William Reid highlights some areas of interest he comes across as a charity investment manager, and one bugbear...

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Comparing apples with apples

Getting a clear picture of the costs of investment management services and the impact on performance is not straightforward, Matt Ritchie finds

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INVESTMENT

Measuring up

William Reid highlights some areas of interest he comes across as a charity investment manager, and one bugbear...

WRITTEN BY WILLIAM REID, HEAD OF CHARITIES, QUILTER CHEVIOT

As Head of Charities at Quilter Cheviot, I spend my working day focusing on providing advice and managing discretionary investment portfolios for a wide range of charities, across the spectrum of the third sector. However, this does not preclude time spent investigating areas of interest that I believe are of growing importance to both the charity sector and investors in general. My time as a governor of a school and as a member of a charity investment committee, have served to reinforce this view. What follows is an insight into a number of my enthusiasms, and one bugbear …

Behavioural Economics

Our regulator, the Financial Conduct Authority (FCA) believes that embracing behavioural economics (BE) will make it a more effective policeman. BE uses insights from psychology to try and explain why people behave the way they do. It may not come as a surprise, that contrary to financial theory, people do not always act rationally, with many decisions made on an intuitive and automatic basis, rather than in a controlled and deliberated fashion.

There are two central pillars on which BE rests, the first of which is mental accounting. This is the tendency to value some pounds less than others and thus waste them. Charities may fall foul of this when considering their attitude to risk for proceeds from fundraising, against similar funds held in long-term reserves. This is an anathema to traditional economics, which says all money is 'fungible'. Put simply: a million pounds is a million pounds!

The second pillar relates to prospect theory and is considered the source of behavioural finance. There are a wide number of ramifications, but here I wish to highlight framing. This is a cognitive bias in which divergent results tend to be produced from the same problem when being described differently. When you last renewed your charity's insurance policy were you offered legal cover? If so, was this done as a percentage or cash amount? Are you willing to pay an extra £25 on a £500 policy or does 'for just 5 per cent more' sound more attractive?

Income

Investment management firms tend to see themselves as the single most important deliverer of income to the charitable sector. However, as a recent survey highlights, for the sector as a whole, investment income has stagnated as an overall proportion of real total income in the order of 8 to 10 per cent since the turn of the century. The same survey further demonstrates that the individual remains the key source of income, representing over 40 per cent, for all sizes of charity.

How then should charities engage with individuals in the new era of fundraising that is encroaching the sector, following the report by the Fundraising Standards Board after the death of Mrs Cooke and the E.ON/Age UK corporate relationship? Time for the sector to embrace innovation; an excellent example is provided by charity Founders Pledge. Here entrepreneurs commit to donate at least 2 per cent of their share of the proceeds following the sale of the business, to a social cause of their choice. This reflects positively on both the individual and their company. Compared to the challenges of chasing legacies, the immediate attractions are obvious; develop a bond with a potential long-term supporter, who may in turn choose to support the charity, in a meaningful way, throughout their life and not just at death.

The fundraising tool kit available to the nimble charity has also grown through the expansion of social impact finance, and latterly Social Impact Tax Relief (SITR). However, SITR is currently limited to benefit smaller operations, which may lack the financial expertise to turn an opportunity into reality. The jury is also out on the extent to which SITR will have a negative impact on Gift Aid receipts. It is also clear that frustrated philanthropists are seeking to gain a greater understanding of the issues behind the causes they wish to champion. In this regard, I am enthused by the work of Jake Hayman at Ten Years' Time, an organisation aiming to help philanthropists learn about the fields they care about and take big bets on impactful new ideas. Which neatly brings us onto our next topic...

Impact

Working with Keith Ward at RSM, I have witnessed first-hand, since the Charity Commission turned its focus towards public benefit, that there has been a quiet evolution in how trustees and charities measure their effectiveness and impact. There are three aspects of social impact; firstly, the economic, quantified as the financial and other effects on the micro or macro economy. Secondly, the social benefit, which usually measures the effects on individuals or communities, and how it affects their inter-relationships. Finally, environmental, measuring the effects on the physical environment.

To enable trustees to understand if they are meeting their charitable objectives, it is arguably necessary for them to understand the impacts of their benefaction on the recipients and the wider community. This may range from cost savings to local services; economic value created or perceived value for the individual. Not all measures will be quantifiable in pounds, shillings and pence, but may rely on the collation of anecdotal evidence. I commend reviewing the impact report produced by The Outward Bound Trust as an example of what is possible.

Effective measurement allows trustees to assess the charity's social impact and the difference achieved. It can also provide a measurement of efficiency and effectiveness of an organisation and highlight areas for improvement – immensely useful to those charged with delivering the charitable objective.

For the fundraising departments it provides a means of reporting back to investors, funders and stakeholders to prove that intelligent and quantifiable benefaction is in operation. Not only does reporting meaningfully demonstrate your impact as an aid to fundraising activities, but also should assist in publicising the wider benefits to increase donations.

Finally, a potential benefit to the sector is an ability to compare against and influence other organisations' policy, practice or investment decisions. Sharing good practice and innovation may also allow an assessment of negative or unintended consequences.

Performance reporting and costs

My biggest bugbear (professionally!) is the lack of a common standard of investment performance reporting to investors. At the root of the problem is the theoretical debate about reporting a fund's performance gross (meaning before fees are deducted) against a benchmark, which itself has no fees to pay, or instead showing the actual outcome after charges are taken into account (net). Many reports I have seen lack clarity in stating what is actually being reported. At Quilter Cheviot we have a passion for transparency and clearly report net returns to our charity clients, even if against a gross benchmark.

For most investors, performance is one factor taken into consideration, with service and administration normally featuring higher up the ranks. However, when used in charity beauty parades, trustees need to clearly state what they wish to see, or else they may draw the wrong conclusions, inadvertently comparing the gross performance of one manager against the net performance of another.

Whilst my colleague, Pamela Reid (no relation!) has led past efforts to create a reporting standard for overall costs, working in collaboration with Rathbones, this is also an area liable to cause confusion. Depending on the outcome of the forthcoming European referendum, we will have an answer of sorts courtesy of the Markets in Financial Instruments Directive II (also known as MiFID II) which will require firms to provide a single figure, totalled as both a cash amount and as a percentage of aggregated initial costs and charges, ongoing fees and exit costs and charges – which in turn brings us neatly back to behavioural finance! Finally, were you easily distracted whilst reading all this? I suggest you take Simons and Chabris' 'selective attention test' on YouTube to find out.

INVESTMENT

Comparing apples with apples

Getting a clear picture of the costs of investment management services and the impact on performance is not straightforward

WRITTEN BY MATT RITCHIE, EDITOR OF CHARITY TIMES

What is the real performance of an investment portfolio? Is it the overall growth in the value of the invested assets, or the actual cash that is delivered to the charity that it can then use to further its purposes?

As Quilter Cheviot's head of charities William Reid highlighted in the preceding article, opinions differ on the correct answer. Certainly, however, the measure that really matters to charities and the beneficiaries of their work is the value ultimately available to further the cause.

"All performance should be quoted net of fees," says Charles Mesquita, senior director of charities at Stanhope Consulting. "This is because as an investor you want to know what has been achieved after costs, not what has been achieved before charges were taken."

However, quoting performance net of fees – while common – is not universally practiced. Indeed, the variety of approaches to disclosing investment management charges can make like-for-like comparisons between managers difficult.

Impact

Experts (and not just investment managers) caution against making cost the principal determining factor behind how or with whom charities choose to invest.

When it comes to fees, it is a question of value rather than cost.

And value is necessarily relative to performance, service, and the charges offered across the various investment managers servicing charities.

"We do feel investors are often overly concerned about fees without considering the services they require," says Matt Lonsdale, head of business development at ARC Consulting. "For example, if an investor wants a personal service from an investment manager they will pay a higher fee than someone who wants no service and wishes to invest in a single passive fund."

And, encouragingly, evidence suggests that by and large fees have been falling over the past decade.

Implementation of the Retail Distribution Review recommendations has contributed, along with the growth of platforms and greater awareness among investors.

In any case, the cost of management services remains a live issue across the investment community. Cost-conscious charity boards arguably have more reason than most to be mindful of what they are charged for the management of their assets.

Mesquita says the impact of investment management costs is even greater in the current environment, characterised by low growth and low returns.

"Trustees therefore need to be cost aware – i.e. know what they're being charged – although investment

decisions should not be driven by price alone."

Of course, there are legal and regulatory imperatives too. According to the Charity Commission's guidance (CC14), trustees are legally required to clearly understand what they are charged for management services and be satisfied that these charges represent value for money.

The commission recommends trustees "request an outline of all the fees that may apply to a portfolio and ensure there are no unexpected fees".

Costs the regulator says charities are typically exposed to include management fees, commissions on transactions, management charges for pooled funds, administrative charges, performance fees, bank interest deductions, operating fees, custody fees, and third party fees.

So, a fair variety of charges that charities need to be aware of.

Transparency, consistency

Transparency of investment management costs is widely considered to have improved over the past decade, a welcome progression Mesquita attributes to client demand and helped along by regulation.

Lonsdale agrees that the industry has lifted its game in terms of transparency, but there remains "some way to go".

"In our experience investment managers work very hard to be open with their clients," he says. "There are a number of ways of presenting the information, so the difficulty is getting the same information from all providers, and having a process for making a meaningful comparison."

So if charities are seeking to establish exactly what they will be charged by various managers, they need to ensure they are asking for, or being provided, the same information.

ALTHOUGH MOST MANAGERS HAVE SIMILAR CHARGING STRUCTURES, COSTS VARY WIDELY DEPENDING ON HOW ASSETS ARE INVESTED

Popular measures include the Total Expense Ratio (TER) or the newer Ongoing Charges Figure (OCF), which from 2012 replaced the TER as the required charge disclosure measure for Ucits funds governed by EU legislation.

The OCF includes management fees, registration fees and other administrative costs. However, unlike the TER, it does not include performance fees.

Further muddying the waters, Mesquita says, is that there is no precise industry standard for calculating the OCF or TER, with "wide scope for interpretation" within the FCA guidelines.

"Our advice to trustees is to make sure their investment reports include the charges – both fees and TER or OCF – both as a percentage and in terms of pounds," Mesquita says. "All too often, trustees focus on fees at appointment and then forget what they are being charged. Cost should be one of the factors are taken into consideration when reviewing your investment manager."

It is here that an 'apples with apples' comparison becomes so important, to ensure that trustees are not only getting a comprehensive picture of the costs levied for their services but also the relative value various managers offered.

Although most managers have similar charging structures, costs vary widely depending on how assets are invested and in particular the number of different players involved in managing the various parts of the portfolio.

Mesquita points out that exposure to some asset classes, such as hedge funds and private equity investments, will be more expensive than allocations to 'vanilla' assets like equities and bonds. Sub-contracting services to third party funds can result drive up overall costs.

"The key for trustees is to be clear about what is being charged and by whom."

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INVESTMENT

Putting investment performance into context

Matt Lonsdale talks about the importance of using a common terminology when comparing investment

WRITTEN BY MATT LONSDALE, HEAD OF BUSINESS DEVELOPMENT, ARC CONSULTANTS

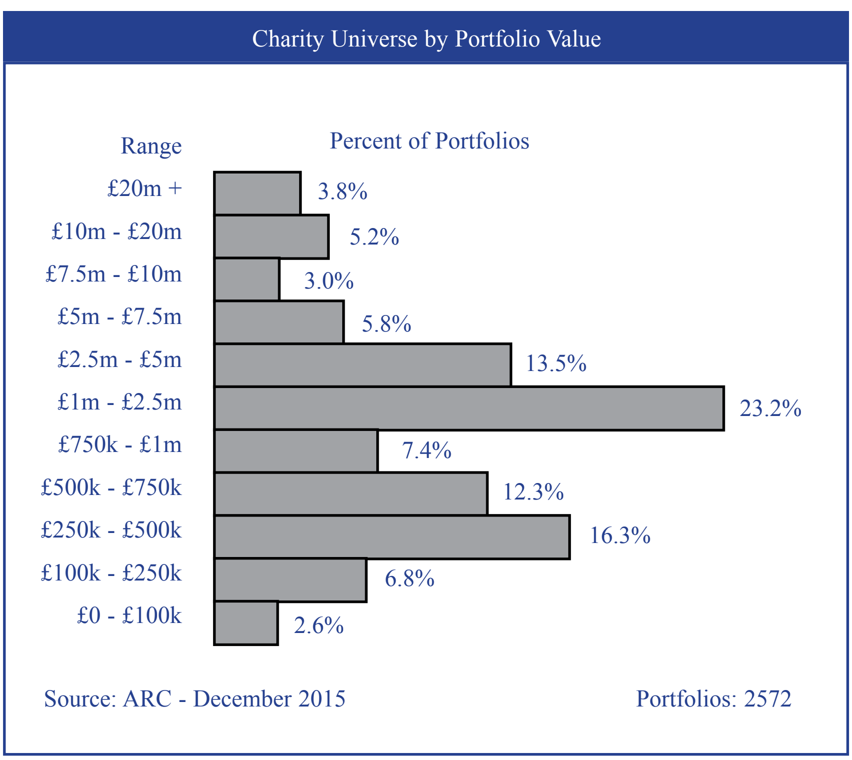
Nearly every industry, sport or pastime has a common terminology to help those involved communicate their objectives, actions and achievements clearly. In many cases the terminology, and the measure associated with it is so widely accepted that it has become a universal language, the cry of 'GOAL!' will be understood on any football pitch in the world and the score will be updated by adding one point to the scoring side. Ignoring the passion for the game, it's the simplicity of the word and completeness of information that is the key to the universal success of the footballing term 'goal'.

The investment management world hasn't yet been able to marry terminology and information but the industry is developing and Asset Risk Consultants (ARC) is at the forefront of this innovation. ARC recognised that investors and trustees find it difficult to put their portfolio's performance into context, so they developed a number of

Risk Category	ARC definition	Helpful information
Cautious	0-40% the volatility of world equity	Portfolios with circa 40% equity or less
Balanced Asset	40-60% the volatility of world equity	Portfolios with circa 40-60% equity
Steady Growth	60-80% the volatility of world equity	Portfolios with circa 60-80% equity
Equity Risk	80-120% the volatility of world equity	Portfolios with circa 80-100% equity

services to answer their questions, and now a number of investment managers are adopting their thinking too.

The word balanced is one of the most widely used words in the investment management sector, it is often used in relation to risk, but in reality it is meaningless without some additional information. In our experience the term balanced, when dealing with investment portfolios, can mean anything from 20% invested in equity to 80% invested in equity; yet a portfolio with 20% in equity will have significantly different risk and return characteristics to one with 80% invested in equity. More information is required before proceeding. Returning briefly to my 'GOAL' analogy you would never enter a game without defining the scoring system.



ARC first tackled this issue nearly 10 years ago by seeking to create a simple way to compare the performance of private client and charity portfolios with similar objectives. It created the Private Client Indices (PCI) which has grown to become probably the largest performance peer group in the investment management industry. ARC concluded that there were two common measures for every portfolio, irrespective of investment style, return, measured by percentage change (%) and risk measured by volatility.

In 2012 ARC used the same methodology to launch it dedicated charity indices (ACI).
The ACI incorporate the performance of over 2,000 charity portfolios, managed by over 30 different investment managers, and these numbers are growing.
The performance characteristics of each contributing portfolio are assessed and each is then placed into one of four categories. The four ACI categories are:

The ACI is freely available on www.suggestus.com. All investment managers, investors, trustees and advisors can access and use the information provided by the indices to put their portfolios' performance into context. Look at the asset allocation information in your next portfolio valuation and decide which is the closest ARC index, e.g. if the portfolio has 65% in equity, you are probably best to look at the returns of the Steady Growth Index. If you compare your returns to those of the most relevant index you will see if you are meeting your investment GOAL!

'The gift of a common tongue is a priceless inheritance and it may well some day become the foundation of a common citizenship'
– Winston Churchill

INTERVIEW

Starting social

New Big Society Capital chief executive Cliff Prior spoke to Matt Ritchie about his plans for the organisation

WRITTEN BY MATT RITCHIE, EDITOR OF CHARITY TIMES

What were your first impressions upon arriving at Big Society Capital?
It's quite different to what I expected. I came in and pitched to the interview panels my mantra about starting more from the social issues and the social organisations, working up from that. More engagement with the public in social investment, changing the tone, shifting just from simple awareness of social investment to understanding of when it's right for you and how you do it – only to discover that the team had been on all those priorities for some time. The staff are incredibly bright, incredibly committed to making social investment work for charities and social enterprises. From the outside many people say 'it's all bankers' – actually there's as many people employed here from charities and social enterprise backgrounds as there are from finance backgrounds. So these are really pleasant surprises.

Do you get the reverse criticism from the social sector side? 'BSC is a charity-sector organisation, they're do-gooders etc.'?
When I was first appointed I was talking to [former chief executive] Nick O'Donohoe and the chair Harvey McGrath and others, and they all said you could put the investment team here in any of the top flight finance organisations in the world and it would be world class. That's great, but equally the market championing side are just fabulously bright and committed and very insightful about the journey that we're on to build a more accessible, more useful social investment set-up in the UK.

What do you see as the main challenges facing the market, from the perspective of BSC as a market champion?
It's still the case that it is difficult to find investees and it is difficult to find co-investors. There is often a tension between those two, in that to attract co-investors you may have to put a higher price on the money, whereas most charities and social enterprises are operating on such wafer thin margins that they need a very low price of money.

Another issue is impact measurement. Of course if you're a social organisation you must be able to show that you're achieving social benefits. But in practice it's incredibly complex and can seem burdensome. There are now quite a number of standards, international standards in some cases, on the measures. My sense is that where we need to work next is on the mechanisms. I quite like impact audit as a mechanism - you decide what your social benefit is, measure it, and add that up. But then you bring in an independent organisation to check your methodology and your numbers in the same way you do with your financial audit. I think that's affordable, achievable and credible -which are probably the three things that you need.

Transparency in general has been a priority for BSC…

One of the things I've observed is that the team are incredibly strong at understanding the intermediaries that we invest in. But we need to build a stronger understanding of the markets in which they operate.

We've got some great data now of the overall size and shape of the market but perhaps we need to get more granular about specific areas. For example there's quite a lot of evidence that it's a really challenging market at the moment for small and medium sized charities and social enterprises seeking loans, because of what's happening to organisations of that size. But other parts of the sector may be expanding. So knowing the overall shape of the market is good, but it also just immediately makes you want to go the next step of looking at the subsectors and understanding where people are at with those.

Does that extend to the different experience of different causes seeking finance?

Even within something like education, for example, there are all kinds of ways you can look at it. There are great opportunities for charities and social enterprises to deliver interventions on augmented education initiatives because of the pupil premium. But, if you were to take another area of education like getting more equality in university entry for example; you might have a much more difficult path. So we need understanding at a quite detailed level in order to be able to help. I'm really keen that we work with the experts – the leaders of the charities and social enterprises in those spaces. Recently for example we co-designed a health and wellbeing fund with Macmillan, there's continuing work with Homeless Link on the homelessness sector. They're the experts, our team are experts on social investment, but they are the experts on their subject area and that relationship will help us design much more useful and relevant social investment opportunities.

How important is it for BSC to illustrate how the market works?

Having a more open conversation with charities and social enterprises in different sectors is really important. They need to hear the realities of social investment from us, and we need to hear the realities of the situation they're in from them. Transparency on how the social investment world is working – where are the deals, what are they like - is really important and we put that material out in December. That's really just the first stage. I'd like to thank everybody who commented on that too because the comments on it - including the challenges - helps point us to what the priorities for the next stage should be.

Social investment is tough, and there's no point in rose tinting it. People will feel more able to do it if they know the ins and the outs of it. My long term ambition for social investment is that it's just another tool in the tool box. So it's at the point where people feel comfortable that if it's right for them they know where it is, they understand how it operates, and they know who to talk to.

Is that also about being realistic about what social investment can offer? It is sometimes talked about as a cure-all that can solve the sector's funding issues.

I'm not going to knock the people

who talk that way because Big Society Capital and social investment as it is today would not be here unless people had talked big and talked about a wonderful future. It's really important that all that happened. But our job now is to fill in the gaps. 'This is how it really works, this is what you need to know, this is who you need to talk to'. Initiatives like goodfinace.org.uk are designed to do that job.

Earlier you mentioned engaging with the public as one of your priorities for BSC. What part do you see the public playing in the growth of social investment?
What we know from other countries is that when you make it pretty easy to invest in social, people do so on a big scale. For example in the French equivalent of pension funds large employers have to offer an alternative fund where 10 per cent goes into social investment. A million people have gone for that – voluntarily. How often do people change their pension fund?! It's a real success story. Could we do something here in the UK, or might it be more individual rather than through institutions? The really important thing to me is that if you engage the public it becomes a movement. It becomes relational not just transactional. The public are more likely to invest in things close to them – in their community, or things they're really passionate about. Then it becomes quite different, it's got its own energy, it's got its own creativity, and I think that would be a really fabulous addition alongside the more institutional end of social investing.

Would you say market development has been too heavily weighted towards institutional players so far?
The UK's had both ends really. The community shares world has done well, and of course there's a significant number of people who have always invested in things like Charity Bank. Then you've got the more institutional players coming in. Businesses and so on. It's wonderful to have that diversity. It means you've got different types of money on different terms and with different kinds of relationships.

Is BSC excited by the prospect of the £1 billion in extra capital the Dormant Assets Commission has talked about unlocking?
The commission is to identify how to raise that capital and to quantify it. It's not that commission's job to decide how it's used. We're not banking on anything further. I'm sure it will be used for social benefit, but there are a variety of ways to do that. People talked about dormant bank accounts, but you have to remember how long a journey it was before we got to where we are now. So this could be another quite long journey – we shall see. In a few more years we'll have a much better handle on whether the amount of money that BSC has is right, or whether there is more. But we'll only know in a few years' time.

The age and maturity of the organisation now is where you start to see results isn't it?
Absolutely. You've seen at the end of 2015 £68 million drawn down, twice as much again from co-investors. The numbers are starting to ramp up. You look at the recent market size report that we produced, there's now 3,000 charities and social enterprises who have taken social investment. That's still a small proportion of organisations generally but it's enough that if you're running a charity you probably know somebody who's taken social investment. You probably know somebody you can phone up and ask what it was like and how it worked. That's the tipping point where things can develop. ■

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