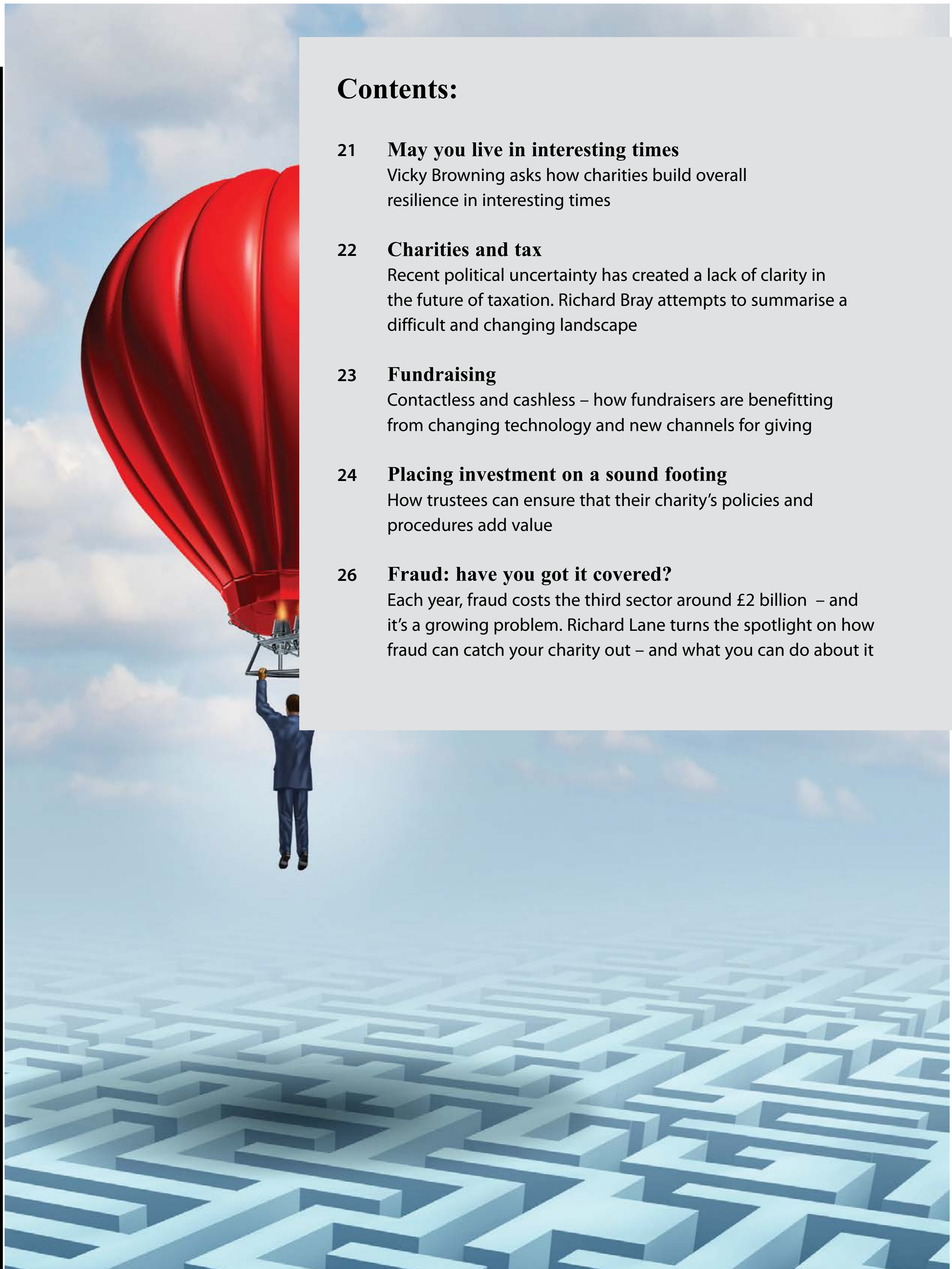
charitytimes

Management Guide 2017



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May you live in interesting times

"…in this world nothing can be said to be certain, except death and taxes."
– Benjamin Franklin, 1789

I can't be the only person in this country who would like a bit of certainty for once, thank you very much. The past few years have been tumultuous, from the EU referendum to the ongoing confusion in Westminster.

In these rapidly changing times, sector leaders need to be able to handle whatever life throws at them. Because it isn't just politics that's changing. The charity sector has seen major upheavals in the wake of the Kids Company investigation and Olive Cooke.

We have new regulators, a new minister and a changing of the guard at the regulator. Economic shifts have harmed our reserves, and increased demand on services. And as we go into at least two years of Brexit negotiations, things don't look like they're going to get more stable any time soon.

As CAF found earlier this year, charity chief executives aren't feeling overly certain about anything at the moment. This goes beyond just economics – uncertainty around the Lobbying Act has led to a degree of self-censorship in the run up to the recent election.

Given all of this, I think a change needs to be made to Ben Franklin's famous and oft repeated maxim. The one thing we can be absolutely certain of these days is uncertainty. But this doesn't mean we should let ourselves become paralysed by inaction.

Unkown unkowns

When I spoke at the launch of NPC's recent State of the Sector report, I paraphrased another American former leader, Donald Rumsfeld. It seems to me that the sector faces known knowns, known unknowns and unknown unknowns. We know we need to sort out diversity and fundraising. We broadly know what to do to fix these, and action is being taken.

We know that too many charity leaders do not fully understand the Lobbying Act, and that Brexit will inevitably have an effect of some kind on the sector's work. Our job at ACEVO is to try and shift the balance on these, so our members can face these challenges with certainty.

This brings me on to the unknown unknowns. As the name suggests, I've got no idea what these will be. None of us saw the Kids Company collapse coming – or at least not in the way it did. Likewise, the furore about fundraising was largely unexpected. You never know – we might see another election which puts Jeremy Corbyn in Downing Street.

Just because we don't know what these things are doesn't mean that we can't prepare for them. That's why one of the areas of personal development we're focusing on at ACEVO is resilience. After all, if you can keep your head when all others are losing theirs…

Resilience

Too often when charity leaders talk about resilience, they mean financial thier reserves and their diverse income streams – the things to get them and the charity through any rough patches they might encounter.

While financial resilience is absolutely essential, our focus on it fails to recognise the more human resources that charities rely on day in, day out.

Developing this can take any number of forms. At one end of the spectrum, you have mindfulness training to help keep your mental health up to scratch.

At the other end, you've got crisis management skills which ensure that, when things need to be done in a hurry, the systems are in place to support this and do not have to be created anew on the spot.

What this boils down to is investing in leaders. It will be unsurprising, given ACEVO's role, that I think this is important. However, that doesn't make it any less true. There's not much we can do about uncertainty, so we need to invest to make sure we can handle it. And that means using some of your well managed funding to train up your staff – from the chief executive down.

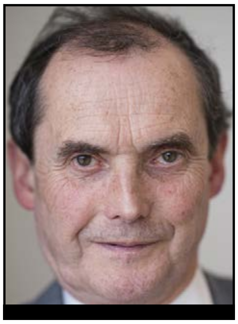
We are undoubtedly living in interesting times. While a brief respite may be appreciated, there is no sign that we will receive one any time soon. As such, all I can do is urge charities to make the most of the situation as it is, and not let change become a problem.

Vicky Browning is the chief executive of the charity leaders network ACEVO

acevo
Charity Leaders Network

Charities and tax

Recent political uncertainty has created a lack of clarity in the future of taxation. Richard Bray attempts to summarise a difficult and changing landscape



We are in uncertain times. The general election result, with the Government not having a majority in the House of Commons, only serves to increase the lack of clarity around the upcoming Brexit negotiations. On top of this, the ensuing cabinet reshuffle has given the charity sector a new Minister for taxation, Mel Stride – the eighth since the 2010 election to have this responsibility – and a new Minister for Civil Society, Tracey Crouch. This will require the sector once again to put time into building relationships with these new Ministers – though it also offers another potential opportunity to re-state the case for protecting valuable tax reliefs for charities.

The biggest tax threat (and opportunity) for the charity sector comes from the freedom to change the VAT system that the Government may gain as a result of Brexit. CTG is already in discussion with HMRC and the Treasury to look at how the sector's VAT reliefs and exemptions can not only be protected but also enhanced. Given the competing demands of so many lobbying groups, CTG is gathering evidence to inform the debate on how the system should change to benefit charities. This battle will only be won if charities present a sound business case to Government. CTG has also met the Office of Tax Simplification to inform its review of VAT. This will serve as a roadmap for the VAT system post-Brexit, and we are determined that the charity sector will play a significant role in its design. Getting this right could be worth billions of pounds to the sector.

Aside from these critical VAT issues, through its Gift Aid practical issues working group CTG is in discussions with HMRC on its programme to improve donor education for online fundraising donations. HMRC is determined to reduce the high level of errors in claims for Gift Aid made through these channels. Working with the major online donation platforms, HMRC has come up with a series of three questions, which it is encouraging charities to include as part of their own online donation "journey", that make clear to donors that they can only apply Gift Aid to donations of their own money – a donation of the proceeds from a collection bucket sent round the office, for example, is not eligible for Gift Aid.

The key aim for the sector as well as HMRC must be to make sure that charities maximise the take up of Gift Aid, but only where Gift Aid is genuinely due. This will protect the value of Gift Aid which charities claim in the long term.

The Gift Aid Small Donations Scheme (GASDS) has been changed recently. This has led to welcome improvements to the scheme and we encourage charities to make sure that they claim the £2,000 that can be available, including for earlier tax years. New rules have come into force to allow Gift Aid intermediaries (such as JustGiving) a greater role in administering Gift Aid. But it remains to be seen if they will be widely introduced.

We are also expecting some minor changes to the thresholds for the level of donor benefits that can be given whilst still claiming Gift Aid.

Overall, the tax burden on charities looks set to increase. It is not always appreciated that the greatest source of tax relief for the charity sector comes from business rates relief, which is worth around £1.8bn a year. The Government has committed to protecting the 80 per cent mandatory element of this relief, but discretionary reliefs are under increasing pressure, effectively creating a "postcode lottery". Charities should make sure they monitor this. Further examples of tax hikes include Insurance Premium Tax having risen to 12 per cent from the beginning of June and the Apprenticeship Levy (.05 per cent of payroll cost) which came into effect last April for charities with an annual pay bill of over £3m. Looking forward, the Government has made a call for evidence on the taxation of employee expenses; a consultation on the tax treatment of employer-provided living accommodation is imminent; and representatives of the sector may soon have to make the case once more for exempting charities from any replacement to the Community Infrastructure Levy.

There has been much comment about the move to "Making Tax Digital". This will significantly change the way that taxpayers report to HMRC. Whilst there is a charity exemption, that is not the whole story. We intend to monitor this closely.

Richard Bray is vice-chairman of the Charity Tax Group

charity tax group

Fundraising

Contactless and cashless – how fundraisers are benefitting from changing technology and new channels for giving

Recent figures from Payments UK show cash usage continuing to fall away – from 24 per cent of all transactions in 2015 to a predicted 15 per cent of all transactions by 2025. At the same time contactless is growing by the day with a projected 900 per cent increase from 911 million transactions in 2015 to 10.1 billion in 2025 or, to put it another way contactless will account for 47 per cent of all debit card transactions by 2025.

We commissioned YouGov last year to look at how much cash the nation holds and the picture is much the same – 70 per cent of us hold less than £30, 60 per cent of us hold less than £20; a picture that is pretty well constant across the UK regions. For those fundraisers who have been used to shaking buckets and counting notes, coins and buttons in their Perspex boxes things are a-changing …for the good.

Consider five £1 coins in your collecting bucket – was that one person or three people or five who put those coins there? Did you collect Gift Aid on the donation (or try to using the Government's Gift Aid Small Donation Scheme) and how do you plan to stay in touch with the donor? What did it cost you to count, account and bank the £28.61, the €5 euro note and the ¥100 coin?

Digital fundraising (text, web, contactless including ApplePay) provide new and relevant channels to collect donations beyond cash. And, the good news is that when giving digitally, average donations are higher, more Gift Aid is claimed and opted-in contact details easier to collect.

Up to now though the time needed to research, and the cost to implement, these varying channels has been prohibitive. That's why we set up a charity to offer the DONATE platform to all UK charities.

What is interesting though is to consider which of the various channels best fits a fundraising scenario. We've found that at lectures and talks text works best – simple to use and easy to communicate. At dinners and lunches, mobile-web giving raises more and donors are more likely to have the time to add Gift Aid and provide contact details. Finally, contactless is best when asking for promiscuous donations – when crowds are passing quickly through or time is short (commuters, foyer traffic or outdoor trails). Our tap+DONATE service launches later this summer.

Claire Moore runs The Certain Curtain Theatre Company (CCTC) in Preston; their purpose is to make professional theatre accessible to all whilst tackling such challenging topics as domestic and sexual abuse. As a touring organisation CCTC has been using DONATE since 2015 but as Claire says "We currently have buckets for cash donations available after performances, but this is limited to loose change as many people don't carry much cash. A contactless card option enables supporters to select their own level of support and will lead to an increase in donation amounts, Gift Aid and crucially supporter data so we can build deeper and stronger relationships".

About the Certain Curtain Theatre Company
Claire Moore and John Woudberg, co-founded Certain Curtain Theatre Company, a professional touring theatre company in May 1989. Renowned for tackling sensitive and controversial subjects with dynamic originality they have been at the forefront of domestic abuse drama since 1995. John and Claire have created a unique brand of theatre - writing and producing only original work – they aim to take the harsh, raw elements of life and language, mix them with a startling lyrical flavour and add a touch of attitude, to create something new, edgy, daring and dangerous.

About the National Funding Scheme
The National Funding Scheme (NFS), operating under the DONATE brand, provides a range of free mobile fundraising tools for charitable organisations to maximise fundraising campaigns. Launched in 2013, DONATE™ (www.easydonate.org) is a platform that allows the UK public to conveniently and effortlessly donate to charitable organisations and campaigns via SMS text, contactless or online. It is so simple to use that case studies show increases of 17x the amount raised. As a charity itself, all NFS's costs are covered by the Government's Gift Aid scheme. When no Gift Aid is available NFS charges 4.5 per cent to cover transaction and administration costs.

William Makower is digital and fundraising evangelist at DONATE.

Placing investment on a sound footing

How trustees can ensure that their charity's policies and procedures add value

As a trustee, you would be forgiven for thinking that 'Governance' is all that matters. Regulators, politicians and professionals all like to bang this drum, but our task as trustees is to establish whether governance is merely a box-ticking exercise or whether it adds real value. Policies and procedures should be proportionate and appropriate for your organisation; they should also be a live document, not just another exercise that gathers dust once completed. As trustees we must:

- Set the vision, purpose and values of the organisation;
- Establish the strategy and implementation, including policies and procedure;
- Monitor the outcome; and
- Act as a critical friend to the executive and to professional advisers.

Our task is to ensure policy and procedures add real value. Rather than get involved in the day-to-day running of the organisation, our role is to set a clear strategy and assist when needed.

Under the Trustee Act 2000, trusts (charitable or otherwise) granting discretion to an investment professional must have a Statement of Investment Policy (SIP). The law does not state what should be in the SIP, or how long it should be. But the Charity Commission's guidance, irrespective of your constitutional structure, goes further:

"Trustees should decide on an investment policy for their charity, record it in writing and keep it under regular review".

The guidance goes on to say:

"Without an investment policy, trustees are likely to find it difficult to demonstrate that they are making good use of the charity's funds."

All too often, I have seen a standard template being wheeled out by an investment manager without the Trustees discussing the various options. Yes, a policy should be developed in partnership with your investment manager. But the policy belongs to, and should be owned by, the trustees. The policy needs to take into account the organisation as a whole — its financial objectives, the spending plans and the reserves policy.

Some of the questions you may wish to ask:

- Why should we invest?
- What is the purpose of the money?
- What do we want to achieve?
- Over what time period?
- What risks worry me most?
- Should there be any restrictions placed on the portfolio?
- Who should we turn to for advice?

A clearly articulated policy ensures everyone fully understands the charity's investment objectives and how they fit with the organisation's overall strategy. This has the added benefit of restricting the scope for those people whose investment strategy is to be wise after the event. The test of a well-written policy is to ask a new trustee to read the policy, and then to explain it clearly. Charities with significant investments would do well to make general investment knowledge a part of the induction programme.

Risk can be the single most challenging decision, particularly as it means different things to different people. The investment management industry focuses on capital volatility, but as an organisation it is about understanding the risks you face and the likelihood of them occurring. This needs to be defined for the organisation, not the individuals around the table, with the aim of being risk aware and not risk averse.

Responsible investing

Being seen as a 'responsible investor' is increasingly important to charities. We expect investment managers to include environmental, social and governance (ESG) principles within their investment process and research function, and ask them to persuade company managements to adopt ESG as well.

Ethical policy is a potentially contentious issue, even if the conclusion is to have no restrictions. The policy should apply as much to your organisation (suppliers, corporate supporters, etc.) as to your investments. I periodically ask my fellow trustees and staff about our policy and its rationale. It is a great way to sense-check the policy and make sure it is being adhered to.

But how do you know if these principles are being implemented? When meeting with a manager, trustees should ask what action has been taken on your behalf. For example, where I am a trustee of a charity for relief of poverty, we raised the issue of the minimum wage. We do not expect total compliance, but we do expect to be moving in the right direction. We also want to make sure our investment managers and the companies we invest in know this is an important issue to us, both as an organisation and as a shareholder.

Most charities with significant investments should have at least one trustee with a financial background. This should provide a liaison between the board and investment manager, and help resolve any misunderstandings. Be aware of their financial expertise and experience, but beware their preferences. It is all too easy for them to dominate the debate, or for the rest of trustees to simply defer to their expertise. As a trustee, I endeavour to make sure every board member fully understands the issues, so that an informed decision can be arrived at collectively.

Monitoring as the critical friend

Regular meetings and quarterly reports should be the key to monitoring outcomes. Ensure the information being supplied is what you need, and over a reasonable time frame. In terms of performance, there is little value in what has happened over the short term: much more interesting is to see how a manager has performed over the longer term, and understanding how that performance has been achieved.

Benchmarking the portfolio is a key part of monitoring your investment objectives. Most charities use three different measures: firstly, a long-term perspective to generate an income, while maintaining capital preservation or an absolute return of inflation plus; secondly, the investment managers' performance against the markets (a composite of market indices); and finally the performance compared with the industry 'peer' group, just for a sense-check.

My experience has taught me to look for two things: are there any long-term trends; and does the performance make sense.

As a trustee, you don't need to be an expert, but I would encourage you to:

- Have an inquisitive mind;
- Challenge anything you do not understand;
- Challenge anything that sounds too good to be true; and
- Be suspicious of complexity.

Never be afraid of starting a question with: "this may be a silly question, but …". If your professional adviser cannot explain it in plain English, they probably do not understand it themselves. If the solution being offered is sound, it should also be clear.

Charles Mesquita is the Charities Director at Quilter Cheviot Investment Management

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Fraud: have you got it covered?

Each year, fraud costs the third sector around £2 billion – and it's a growing problem. Richard Lane turns the spotlight on how fraud can catch your charity out – and what you can do about it

When it comes to fraud, charities are as vulnerable as any other organisation. Some of the costs are obvious: financial loss and the impact this has on your ability to carry out your charity's mission. But there are hidden costs too: the damage to staff and volunteer morale, as well as the blow to your charity's reputation, which may cost you precious donations and goodwill.

It pays to be aware of where your charity could be exposed and the actions you can take to reduce your chances of getting caught out.

How does fraud happen?

According to the Annual Fraud Indicator 2016, the greatest source of fraud for charities is the business of procuring goods and services. This could be anything from unauthorised over-billing by suppliers, to staff or volunteers taking goods, falsifying refunds or diverting invoice payments to their own pockets.

When it comes to the greatest losses across the sector, payroll fraud is the clear winner, at £886 million in 2013/14 . Another vulnerable area for charities is fraudulent grant applications, while online fraud and data theft are an increasing threat across all sectors and walks of life.

There are other, less obvious ways your organisation could lose out to fraudsters too. A disgruntled employee or volunteer could decide to lodge a false claim for injury in the workplace to see if they get lucky. Or a legitimate claim by an employee, volunteer or member of the public could be exaggerated in a bid to bump up compensation.

Whatever form it takes, fraud is a costly inconvenience at best – and at worst, a devastating blow to your organisation.

What can you do about fraud?

1. Be aware of the risks

It's all too easy for charities – especially smaller ones – to fall into the trap of believing no one would want to defraud an organisation doing good in the world. Rule number one is to realise you need to be as vigilant and prepared as any other business with assets and cashflow at stake.

2. Prevention is better than cure

It makes sense to limit the opportunities for fraud in your organisation as much as possible. This means carrying out risk assessments, especially in vulnerable areas such as procurement, accounts and IT, and taking action to plug any gaps.

The key is to have sound control measures in place: systems, checks and auditing that ensure no one person is left in charge of the purse strings and that any irregularities can be spotted early. Robust vetting at the hiring stage and for grant applications can also help limit the chances of fraud.

3. Encourage good practice

Making sure staff understand the risks of fraud and are trained to help prevent it is very important. If anything goes wrong, and your staff have been following the proper procedures, you will be able to demonstrate to your insurers that all reasonable measures were in place to limit your charity's exposure. In some cases, your insurer may refuse to pay a claim if these procedures haven't been followed correctly.

This doesn't just apply to financial situations. With injury claims, having reliable, up-to-date health and safety records of accidents in the workplace makes it much harder for someone to falsify a claim.

It's also good practice to have a sound whistleblowing system, so staff know who to go to if they are concerned fraud is happening.

4. Check your insurance

Your organisation's corporate and public liability insurances should have an element of fraud cover built in. However, it's worth reviewing this to make sure you have enough cover for your charity's needs and that you are aware of any exclusions. For example, you may find that trustees need separate, additional cover. Or that your policy hasn't kept up with changes in the marketplace, such as the growing need for cover against cyber fraud.

A reassuring thought

You're not on your own. A good insurance broker can help you review your organisation's processes, identify risks and provide advice about what you can do to limit your exposure.

Richard Lane is Managing Director of Ansvar Insurance

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Quilter Cheviot

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We believe investment management should be focused on the requirements of the individual charity.

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- We always show performance net of all fees and expenses

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