A Difficult Landscape

Dissecting the complex world of charity pension commitments

Equality for All

The challenge of diversity within trustee board recruitment

The Lost Decade

Equities are set to bounce back after a disappointing decade for stocks

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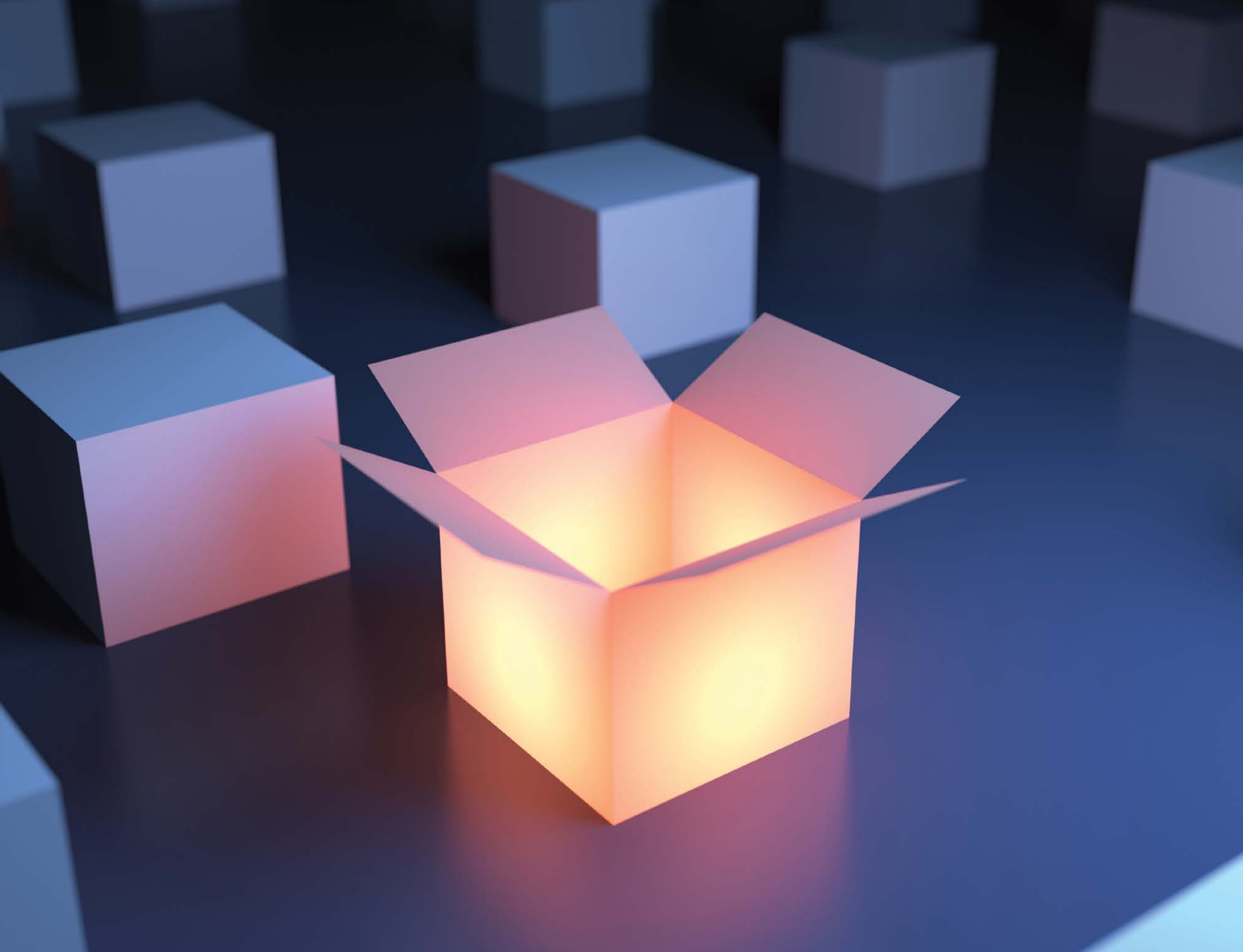
FIRST CHOICE FOR NON-PROFIT MANAGEMENT

February/March 2013 | www.charitytimes.com

Is the sector special?



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Justifying the special tag

As the 2013 Budget approaches, the sector is united in the hope that the Chancellor will not produce a similar disaster as last year. There exists a strong realism that the Budget will not produce much for the sector.

But as Caron Bradshaw notes on page 16, it would be good if the Government could heed lessons learned and informed decisions to be made about tax and regulation that will allow the sector to stand on its own feet, compete fairly, and help to deliver the best organisations can for their beneficiaries.

Many analysts have noted that when it comes to the wider economy the Chancellor must commit to a new plan for growth. The emphasis on austerity has been both defeatist and misleading. Debt is in fact rising. At the same time, the sector has been paying a high price, suffering in many areas from the cuts.

According to the Institute for Fiscal Studies, the Chancellor is likely to borrow more this year than last: national debt will be 58 per cent higher by the end of this Parliament than it was at its beginning. Making the current pain a moot point.

With the focus being on such hard finance, it is welcome that the Big Lottery Refund campaign is beginning to pick-up some pace, as money taken from the Lottery, and with it sector causes, to finance the Olympics has yet to be full returned. Read Jay Kennedy's excellent in-depth analysis on page 10, where he explains lucidly the complexity and unfair nature of the situation.

But it should also be noted that the sector should be able to stand on its own feet despite the economic environment. It just needs to box clever and think outside the box more. A prime example of this is Scope CEO Richard Hawkes, who has radically transformed his charity, and with it the sector, with the launch of the first sector bond which will benefit Scope to the tune of £20m and give investors a return on their money (page 20).

Questions have also been raised about whether the sector is special; our cover story, analysing the unique nature of the sector: its independence, unity and sense of difference. These are key issues that the sector has to deal with going forward in a solid, substantial way, rather than has been the case sometimes in the past with assertions that the charity sector does good work and leave it at that.

Because, as our report on trustees observes, charities have a long way to go in embracing diversity, something that should be at the heart of the sector's ethos.

Andrew Holt, Editor

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Charities Security Forum

The Charities Security Forum (CSF) is a group of security people working for charities, addressing the security problems affecting mainly/only charities.

Membership is free - there are no joining fees or membership dues.

We meet on a quarterly basis in London, but between meetings we make use of a LinkedIn group for discussions. This is particularly effective as it is a closed group.

Our current membership is 200 charities and growing, across the UK and includes the names you would expect – Salvation Army, CR-UK, NSPCC, RSPCA, RNIB, Royal British Legion, OXFAM – plus some surprises – Sadlers Wells, V&A, the Zoological Society of London, The Scout Association, National Trust, The Institution of Engineering and Technology (IET).
Our mentoring scheme pairs members together to provide support and advice on a personal basis.

Our objectives are -

- *To promote Information Security in the charity sector*
- *To facilitate discussion and presentation on subjects of particular relevance to information security in the charity sector.*
- *To encourage the open and free debate of security matters between forum members and peers.*
- *To provide a voice for charity security professionals, both inwards facing to peers within the same sector, and outwards facing to related professions and or related sectors.*
- *To create an awareness of the Forums existence in associated media and provide a route to speaking engagements for our membership*
- *To publish subject and sector specific whitepapers.*

Whether you are experienced or a newcomer, whether your charity covers the whole country or a local issue, you should join the CSF.

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COVER STORY: IS THE SECTOR SPECIAL?

What is the role of charities? Are they unique? Or do charities ape what other organisations do? Hugh Wilson investigates

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INVESTMENT ANALYSIS

Volunteering gets a Big Society boost

Andrew Holt looks at official statistics showing a significant resurgence in volunteering

New figures released mid-February showed a sharp rise in volunteering and that people are actively coming together to drive improvements in their communities.

The Official Statistics published for the first time by the Cabinet Office show that the proportion of people volunteering at least once a year has now increased from 65% in 2010-11 to 71% in 2012, with an even bigger increase in the proportion of people volunteering regularly.

This equates to millions more people volunteering across the country – showing that the cultural change is not limited to the 120,000 who volunteered to make the Olympics a success.

Significantly, this reverses the steady decline in volunteering seen since 2005.

The survey also reveals:

People are still giving generously to charity, with 74% making donations in 2012, compared with 72% in 2010.

55% reported a very strong sense of belonging to Britain, an increase from 51% in 2010.

A strong sense of community spirit, with 79% of people reporting they belong strongly to their neighbourhood.

87% of people report that their local area is one where people from different backgrounds get along well together.

Nearly half of people want to be more involved in local decisions, a significant increase from 2010.

Ministers believe that the figures are a vindication of their Big Society agenda to support people to get more involved in their communities.

The Government has backed a number of initiatives such as National Citizen Service for 16 and 17 year olds and the Olympic volunteering legacy programme Join In to engage a new generation in volunteering and civic engagement.

NICK HURD

"London 2012 showed what we can achieve through volunteering and we are determined to build on the inspiration of the games."

The statistics came on the same day the Prime Minister launched a new drive to recruit one million volunteers to support people with dementia, in conjunction with the Alzheimer's Society.

The Prime Minister said: "We all want a bigger, stronger society where people do their bit and that's why I am pleased that the *Community Life Survey* shows we are making progress.

"The figures show that millions more people are volunteering and that the British people remain incredibly generous with charitable giving.

"We want to build on this success and make it easier for people who want to get involved. That's why I am proud to be launching the effort to get one million new volunteers trained to support people with dementia."

Minister for Civil Society Nick Hurd said: "These figures show a very positive picture of how well Britain has responded to tough times.

"We should take pride that so many people have helped reverse the decline in volunteering.

"London 2012 showed what we can achieve through volunteering and we are determined to build on the inspiration of the games."

Programmes which the Government is backing to encourage volunteering and social action include:

National Citizen Service - In 2011, over 8,000 young people took part in NCS and in 2012, we expect the programme will have trebled in size, with 26,000 young people taking part. This equates to 700,000 hours of social action completed.

Join in, the Olympic legacy volunteering programme, delivered over 6,000 events across the UK, with over 300,000 people taking part.

Through the Social Action Fund the Government has supported 40 charities with more than £20m over two years so that they can recruit more volunteers.

So far, over 100,000 volunteers have been recruited with 500,000 expected by Autumn 2013.

The Government is investing an additional £40m to support some of the most promising initiatives that use social action to help solve some of the thorniest social issues.

The first of which will help recruit one million new volunteers to become 'dementia friends' bringing communities and individuals together to take responsibility in solving a critical problem.

The *Community Life Survey* is a new survey commissioned by Cabinet Office to provide official statistics on issues that are key to encouraging social action and empowering communities, including volunteering, charitable giving, community engagement and well-being.

Sustainable investment on the rise

Andrew Holt reveals numbers showing the advance of sustainable development on a global scale

The Global Sustainable Investment Alliance (GSIA) released a report on the size and trends within the sustainable investment industry which finds that globally at least US$ 13.6 trillion worth of professionally managed assets incorporate environmental, social and governance (ESG) concerns into their investment selection and management.

The Global Sustainable Investment Review 2012 is a collaboration between the Global Sustainable Investment Alliance, AfricaSIF.org, and SIF-Japan, and is the first report to collate the results from the market studies by regional sustainable investment forums from Europe, the United States, Canada, Australia, Asia, Japan, and Africa.

The report measures sustainable investments in all asset classes, from public equities and fixed income to hedge funds and microfinance.

The US$ 13.6 trillion worth of professionally managed assets that incorporate ESG concerns into their investment selection and management represents 21.8 percent of the total assets managed professionally in the regions covered by the report, conclusively showing that the sustainable investment industry has significant scale in the global arena.

Europe is the largest region with about 65 percent of the known global sustainable investing assets under management.

Europe, along with the United States and Canada, account for 96 percent of SRI assets.

Other key findings include:

The most common strategy used globally is negative/exclusionary screening, with US$ 8.3 trillion in assets. Norms-based

PENNY SHEPHERD

"UKSIF to strengthen its support for the UK finance sector's leadership in advancing sustainable development and delivering long-term value for global clients."

screening is also significant at US$ 3trillion, but this approach is currently only found on a large scale in Europe.

Positive/best-in-class screening stands at just over US$ 1trillion, with the US market contributing most of the global assets invested in positive screening.

Assets utilizing ESG integration are at US$ 6.2trillion.

Approaches to corporate engagement/shareholder action varies greatly across regions, but this is the third-most common strategy, at US $4.7trillion.

Impact investing and sustainability themed investments are comparatively small at US$ 89billion and US$ 83billion respectively.

All of the regions expect sustainable investment strategies to expand as increasing numbers of investors realize the value in considering ESG issues and the importance of sustainable investment to risk management and long-term performance.

The release of this report also launches the Global Sustainable Investment Alliance (GSIA) and its website: www.gsi-alliance.org .

The GSIA is a collaboration of the seven largest sustainable investment membership organisations in the world: Association for Sustainable & Responsible Investment in Asia (ASrIA), European Sustainable Investment Forum (Eurosif), Responsible Investment Association Australasia (RIAA), Social Investment Organization (SIO) in Canada, UK Sustainable Investment and Finance Association (UKSIF), US SIF: The Forum for Sustainable and Responsible Investment, and Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO) in the Netherlands.

The mission of GSIA is to deepen the impact and visibility of sustainable investment membership organizations at the global level.

Penny Shepherd MBE, UKSIF chief executive, said: "UKSIF welcomes the launch of the Global Sustainable Investment Alliance and the publication of its first report.

"Drawing on the knowledge and expertise of our sister organisations through the Alliance and working more closely with them at a global level will enable UKSIF to strengthen its support for the UK finance sector's leadership in advancing sustainable development and delivering long-term value for global clients."

The GSIA aims to deepen the impact and visibility of GSIA members at the global level and to communicate about its distinctive role in national, regional and international arenas; to enhance the synergies between GSIA members; to undertake initiatives that would benefit from global coordination, and to enable GSIA members to support and supplement each other's work where cross-border collaboration is needed.

Payment by results could leave charities squeezed

There is concern that payment by results for rehabilitation services could squeeze out charities, finds Andrew Holt

The Government must ensure its attempts to introduce payment by results for rehabilitation services do not squeeze out charities and community groups, sector bodies have warned.

Ministers plan to let security firms and voluntary groups take on probation services on a payment by results basis.

But the Charities Aid Foundation (CAF) warned that current payment by results contracts run the risk of excluding charity and social enterprise expertise.

A CAF report published last year says that charities often face difficulties bidding for Government payment by results contracts because of the risks inherent in the payment by results model, they have too little time to assess contracts, and lack up-front funding to pay for their work.

John Low, chief executive of the Charities Aid Foundation, said: "Charities and other not-for-profit organisations work closely with beneficiaries and have a huge amount of expertise in tackling sometimes intractable social problems. Payment by results contracts can represent real opportunities to tap into the depth of charities' experience and make a real difference.

"But most charities simply cannot afford to take on contracts to tackle social problems without up-front funding because they are not allowed to carry large financial reserves and have limited access to capital compared to for-profit businesses.

"We need to ensure the payment by results revolution does not exclude charities so that voluntary sector organisations can play their full part in the heavy lifting needed to transform our public services."

This was a concern shared by Ben

JOHN LOW

"Charities simply cannot afford to take on contracts to tackle social problems without up-front funding because they are not allowed to carry large financial reserves."

Kernighan, deputy chief executive of the National Council for Voluntary Organisations.

He said: "Under its most significant public service reform so far, the Work Programme, many charities have found themselves squeezed out by large commercial providers.

"The Government must ensure the mistakes of the Work Programme are not repeated.

"Contracts must be accessible to smaller, local charities, most of which have been shut out by the very large scale of contracts and unrealistic requirements for the amount of capital providers must hold in the Work Programme."

Sir Stephen Bubb, CEO of ACEVO, observed: "The principles behind the Rehabilitation Revolution initiative are welcomed, but the devil is in the detail, and the Government needs to get it right.

"For the Rehabilitation Revolution to work contracts must not be too large so that they shut out community providers, and payments must be designed so that they incentivise and reward performance without transferring unacceptable financial risk to charities.

"The Government needs to ensure it doesn't incentivise providers to 'park' harder-to-help groups, and subcontracting provisions will have to be carefully monitored so some of the problems seen in the Work Programme don't happen again."

The intention of the Government's paying for results is to focus public money on paying for the proven impact of services (their outcomes) rather than the fact they simply exist and are active (outputs).

It is one of the big agendas in government, with piloting happening across major departments and with full Ministerial support.

Payment by Results is being heralded by some as the saviour of public services, but by others as an insurmountable barrier to VCS delivery of public services.

Justice Secretary, Chris Grayling said of the new approach: "What we do at the moment is send people out of prison with £46 in their pocket, and no support at all.

"No wonder we have such high levels of reoffending. It is madness to carry on with the same old system and hope for a different result."

Under the proposals in the *Transforming Rehabilitation* consultation document, probation services will be split up into areas similar to those overseen by local authorities and the new police and crime commissioners, before being put out to competition on a payment by results basis.

"We know across the public, private and voluntary sectors there is a wealth of expertise and experience – we need to unlock that so we can finally begin to bring down our stubbornly high reoffending rates," Grayling added.

Sector lukewarm on government's Mid-Term Review

Andrew Holt assesses the sector's view of the Coalition at half-way point, finding a mixed picture

The first week of January saw David Cameron and Nick Clegg present an image to the public that their relationship was still fully committed with the Government's Mid-Term Review, taking stock of progress made in implementing the Coalition agreement signed in May 2010.

The review reflected on the Government's progress in building a "stronger, more balanced economy and a fair society" in which everyone can rise as high as their aspirations and talents take them.

This mid-term report was a good moment to assess success so far. NCVO commented how the coalition has done some things right, but in other areas, hasn't done enough.

Deputy CEO of NCVO, Ben Kernighan said: "The country faces long term cuts in public spending and many people are struggling financially. We have less money, but more problems.

"The Prime Minister was right to recognise that in these circumstances charities can and should play a bigger role. He called this the Big Society. Charities are crucial in these difficult times as they understand what support people need to get by. They play a vital role in ensuring that limited public resources are spent well and engage millions of volunteers in helping to create a better society.

"The Coalition Government has done some things right: extending the Gift Aid scheme to small donations through recent legislation, setting up a new Big Society Bank, and making checks on volunteers easier.

"But in other areas, the coalition hasn't done enough: too many public service contracts are not appropriate to voluntary organisations: they are too big or require

BEN KERNIGHAN

"Charities are crucial in these difficult times. They undertstand what support people need to get by. They play a vital role in ensuring that limited public resources are spent well."

charities to have too much money in the bank. In addition, too many public bodies are cutting charity budgets more deeply than their own.

"For the Prime Minister's vision to be achieved he will have to change how commissioning is done, provide more support and training for volunteers and stop public bodies cutting charities disproportionately."

Sir Stephen Bubb, CEO of ACEVO, said: "Although some progress has been achieved in line with the Big Society over the past few years, it appeared as almost a foot note in the review. Charities are still facing crippling cuts to services in high demand.

"The Government needs to ensure that cuts do not disproportionately hit the voluntary and community sector and its beneficiaries, and must find its way again on public service reform; if cuts are made without accompanying reforms, service quality will decline and the most disadvantaged will be the worst-affected."

The Prime Minister David Cameron and deputy Prime Minister Nick Clegg said: "Our parties, after 32 months of coalition, remain steadfast and united. Of course there have been some issues on which we have not seen eye-to-eye, and no doubt there will be more. That is the nature of coalition."

On Social Action the original coalition agreement pledged:

- Support the creation and expansion of mutuals, co-operatives, charities and social enterprises
- Public sector workers to form co-operatives and take over delivery of services
- Encourage volunteering and charitable giving
- Introduce National Citizen Service
- Found a Big Society bank to finance local charities and social enterprises

What coalition says it has achieved in its Mid-Term Review:

- "Big Society Capital" in place, funded by high street banks and money from dormant accounts
- More than 8,400 people have taken part in a pilot of the National Citizen Service
- 12,000 ATMs now enable people to donate to charity while withdrawing cash
- Charities now able to claim Gift Aid-style payments on small cash donations

The Coalition's mid-term "to do" list:

- 5,000 community organisers to be recruited in deprived communities
- Expand the ATM charitable giving scheme
- Publish consultation on encouraging workplace payroll donations
- Gift Aid to be simplified through use of online claims

The Big Lottery Refund

JAY KENNEDY GIVES A DETAILED ACCOUNT ON WHY MONEY TAKEN FROM THE BIG LOTTERY FUND SHOULD BE RETURNED

DSC has been running the Big Lottery Refund campaign for over a year and a half. It is currently supported by over 3,300 charities from across the UK. The aim of the campaign is simple, but the details are hellishly complex once you get into the subject.

In 2007, the last Government raided the lottery for an additional £675m of lottery cash to cover the nearly four-fold increase in the Olympics budget, after London won the bid. £425 million of that should otherwise have been distributed by the Big Lottery Fund for local charities and community groups. Heritage, the Arts and other good causes also took smaller hits.

This funding wasn't to directly support the Olympics athletes, it was used to subsidise Exchequer spending on the Olympics infrastructure – things like the stadium, the velodrome, and the transport network – with profits eventually winding up in the pockets of numerous private sector contractors. Although Parliament ratified the decision in law, we maintain it was wrong to take these funds away from charities and vulnerable people for those purposes.

The campaign aim is for the Government to pay back £425 million to the Big Lottery Fund immediately, now that the Olympics have finished. We don't particularly care how they go about it, but this is the rub: the complexities of the Olympics budget and the various agencies involved confuse the picture horribly.

One of the challenges we've had is to maintain the simplicity of our 'ask' whilst dealing with Ministers and civil servants who are embroiled in the byzantine mess of the Olympics arrangements.

Campaigning achievements

There was significant opposition from charities and many MPs to the Government's £675 million raid in 2007. As a result the Government agreed to repay the £675m after the Games by selling Olympics land and assets. This was set down in a Memorandum of Understanding with the Mayor of London at the time.

This promise to refund the money forms the lynchpin of our campaign – but crucially, no time frame was set for the repayment, which has subsequently proved to be a major problem.

When DSC started the campaign in 2011 there had been a change of Government and a new Mayor of London. We had no idea whether the Coalition Government or Boris Johnson would keep to the MOU negotiated by Labour and Ken Livingstone.

We put the question to the Government and it was revealed that the new Government was agreeing a contract with the Mayor to repay the £675 million, to replace the MOU. They claim this is an improvement on the previous MOU, but a number of key points torpedo the credibility of this commitment:

Time frame: the Government says that asset sales will take place over a period of 25 years, starting in the 'mid-2020s', and 'potentially' be completed by 2030/31. We think this time frame is completely unacceptable – we can't rely on Governments of the future to hold to this deal, despite its status as a contract.

Ownership and leverage: The Government has turned over control of the assets to the Mayor's London Legacy Development Corporation (LLDC), as part of the Localism Act 2011, which puts the lottery good causes in a weak position regarding any sales. The mechanisms for holding the LLDC to account are murky, and seem to offer the lottery good causes no leverage over the process.

Schedule and yield: it looks increasingly possible that few if any of the assets will be sold at all. For example two of the most valuable, the stadium and the media centre, look likely to be leased long term. There is no known schedule of which assets will be sold or when, their assessed value, etc.

The campaign continues to make the case to Government and MPs that this deal isn't good enough and doesn't adequately safeguard the interests of the lottery good causes. Since beginning the campaign, we and our supporters have sent hundreds of letters to Government Ministers. Over time, this postbag and pressure from MPs who support the campaign has caused the Government to reveal more information. At the beginning there was almost no information available on the issue, but

Possible sources of money for a Big Lottery Refund*

Purpose / source	Amount	Refund mechanism	Timing of refund	
2007 raid on the Lottery to help cover Olympics budget increase	£675m (including **£425m** from Big)	Government contract with London to refund £675m via asset sales	Begin 'mid-2020s'; completed 2031	
Further raid to cover shortfall in funding for the Athletes' Village	Believed to be between £69-£80m	Lottery share of proceeds from Village sale expected to be £71m	July 2014	£100-£150m refund July 2014
Unspent money in the Olympic Lottery Distribution Fund (OLDF)	£30-£50m	Government estimates £30-£50m could be repaid at OLDF wind up	July 2014	
Olympic Lottery Distributor (OLD) wind up in March 2013	£0-£30m?	Unspent balances in OLD budget could be returned	Unclear; possibly July 2014	
Forecast underspend of Treasury contingency for the Olympics	£377m	None - Government's position is that this will be kept by Treasury	None at present	

** These figures are an interpretation of various statements made by the Government. However those statements have often been conflicting, unclear, incomplete, and subject to change; information presented here is a current best estimate by the author'* more has steadily dripped out as our campaign has gathered steam.

In June 2012 the Government announced that £69m from the sale of the Olympic Village would eventually be refunded (the figure has subsequently been revised to £71m). This appears to be treated separately from the £675m figure because it was an additional raid on the Lottery to bridge a shortfall in funding for the Village. The private sector deal to build the Village had collapsed during the recession, and the Exchequer stepped in to finance most, but not all, of the £500m cost. This episode was not widely known before our campaign began.

Then, in June 2012 the Government announced that:"The National Lottery will benefit from any funds, including interest accrued, not required for the Olympic Programme and remaining in the Olympic Lottery Distribution Fund (OLDF) after the Games.'"

In layman's terms, any spare change left in the piggy bank of raided lottery funds would be paid back at some point. Again, the Government is treating this differently from the £675m assets deal figure.

Just prior to the Olympics in July 2012, the Olympics Minister Hugh Robertson MP announced that the Government was forecasting to spend £476m less than anticipated on the Games.

Following the Games in October 2012, he revised this forecast down to £377m, and confirmed that these were reserves held by the Treasury and would be kept by the Government. We objected vociferously – claiming the Treasury's money is unspent whilst the Lottery cash is mostly expended is a bit like laundering lottery revenues for the benefit of the Exchequer through the washing machine of the Olympics budget.

In December 2012, during a session of the House of Commons Public Accounts Committee, it emerged that correspondence from the Culture Secretary Maria Miller MP to Fiona Mactaggart MP revealed that Government estimated £30-50m of OLDF funds may remain unspent.

Then in January 2013, DSC received a letter from the Sports Minister Hugh Robertson MP confirming this. It stated that up to £100-£150m could remain unspent in the OLDF, including the £71m recouped from the Village sale and the £30-50m estimate disclosed to Fiona Mactaggart, and that these funds would be returned to the Lottery distributors by July 2014.

What the numbers mean

Taking this complete mess of arrangements at face value, it is theoretically possible (but in our view unlikely) that up to £825 million could come back to the Lottery good causes over the period to 2031. However, as I've outlined above, the current arrangements on refunding the £675m from asset sales are weak and I would be surprised if much of that is recouped unless they are substantively revised.

The most certain figure is the £71m from the Village sale due to be refunded in 2014. This will be topped up by some amount of unspent OLDF funds, so we are likely to have a significant £100m-plus refund taking place by July 2014. This is very good news – but still a year and a half away, and not the whole amount, so far from good enough.

Our campaign has calculated that the extra £425 million taken from Big could have funded at least 10,000 charities serving in the region of eight million beneficiaries. The vast majority of these charities would have been small local groups. It's obvious that if refunded, that money would have massive benefit for the charitable sector and people in need at a very difficult time.

What government needs to do

There are hundreds of millions of pounds left unspent in various parts of the so-called 'Public Sector Funding Package' for the Olympics. There are also hundreds of millions more in assets sitting on the books which effectively have a kind of lien against them. Our demand that the Government pay back £425m to the Big Lottery Fund could be easily met – it is not a question of money but of political will and administrative priorities.

There is a clear moral case, and a clear social need for this money to be refunded to Big immediately. No new infrastructure or system would need to be built – Big could get the money out quickly and efficiently to where it was needed in the sector, across the whole UK. There is also clear political case for doing so – righting a wrong carried out by the last Government – which oddly the Government seems blind to.

Quite simply the Government needs to stop messing about, resisting our requests, drip feeding us information, and making us spend our limited charitable resources campaigning on an issue which should be a no-brainer. It is easily within the Government's power to take responsibility for sorting out the accountability and liability for the different silos of money and assets, and give the Big Lottery Fund £425m today.

If they are so confident in the robustness of the assets deal which they negotiated, why not refund the Lottery up front and take on that long-term liability themselves? Or why not arrange some kind of bridging finance to give Big £100m back now, instead of in 2014? The Government makes these kinds of financial arrangements practically off the cuff everyday.

The Big Lottery Refund would be a big win for the sector during an extremely hard time, when so many vital organisations and services are under severe pressure, and many are disappearing. It poses a minimal risk to the public finances. Join the campaign: **www.biglotteryrefund.org.uk**

Jay Kennedy is head of policy at Directory of Social Change

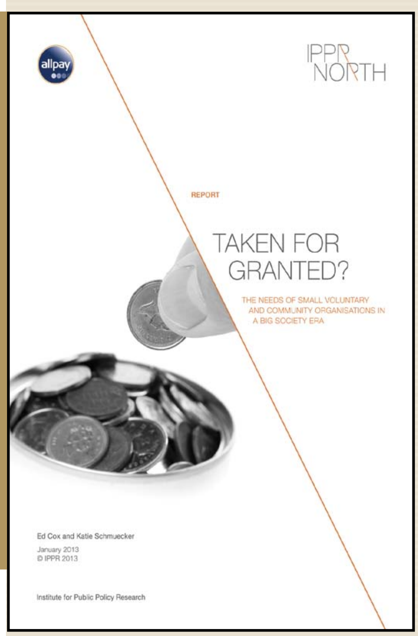
Taken for Granted? By Ed Cox and Katie Schmuecker

The IPPR report *Taken for Granted?* is a crucial read for anyone who believes there is something special about smaller charities and community groups. The report, by Ed Cox and Katie Schmuecker, calls small voluntary and community sector organisations the "life-blood of civil society", many of whom are "the bedrock of, or catalyst for, community action and advocacy". As well as providing a paean to the delights of being small but effective, it pulls together existing research to make an irresistible argument about the importance of supporting smaller charities, community groups and social enterprises. It also develops arguments about how they can be supported through grant funding and micro-finance.

The IPPR report is an important addition to the debate about supporting charities. The report states that across the political spectrum, the work of smaller charities and social enterprises has never been so highly valued, from 'Big Society' to 'Blue Labour'. It says successive governments have understood the importance of smaller charities. And yet here is the conundrum that NAVCA has faced for many years. Despite this recognition, these groups are still the ones struggling most in the current economic climate and "key routes to funding which these organisations have traditionally relied on are drying up".

NAVCA has experienced this when campaigning to defend grant funding. Everyone agrees grant funding is needed for a healthy and thriving voluntary sector, yet available grant funding continues to decline – and often replaced by ponderous or disproportionate competitive tendering. The report highlights a gap for public policy to address between needs and support. Deprived individuals and neighbourhoods are disproportionality suffering from public sector cuts. They have the most to gain from active smaller voluntary organisations. However, smaller organisations are scarcer in these areas. The report says that "on deeper analysis a clear and urgent message emerges that it is small VCS organisations in deprived areas that policy makers should be most concerned about". Instead, charities in such areas have been hit hard as collateral damage as regeneration schemes have been withdrawn. This is why NAVCA and Locality recently called on the Treasury for a fund to support voluntary action in the 50 most deprived areas. The report says that "...by their very nature small VCS organisations tend to be focused on the needs of the immediate area around them than larger organisations; supporting the view that one of the strengths of small VCS organisations is that they are responsive to local needs". The current policy emphasises the role of commissioning and voluntarism as a way to become sustainable.

THIS IPPR REPORT IS A CRUCIAL READ FOR ANYONE WHO BELIEVES THERE IS SOMETHING SPECIAL ABOUT SMALLER CHARITIES AND COMMUNITY GROUPS, SAYS JOE IRVIN



IPPR North says this approach does not take account of many smaller organisations. In some cases charities can do their best work if they stay smaller scale and plugged into their community. Many charities don't seek to be big; they wish nothing more than to increase the impact they have on the community they work with. We need to support charities to scale out not just scale up. The report looks at the funding and finance these groups need to thrive and focuses on micro finance and grant funding. Micro finance could help community organisations and social enterprises boost their operations, creating jobs and generating surpluses to be invested locally. It calls for commissioners to draw out the knowledge and expertise of smaller charities and community groups and find ways for them to "dip their toes into the world of public service delivery". It also says that support organisations, including NAVCA members, need funding to allow them to provide the support smaller organisations need at key turning points in their development.

The IPPR North report lays out a challenge to decision makers. It suggests ways to support smaller charities and community groups so that action matches rhetoric. This report is refreshing because it shouts out that smaller organisations are different (not better but different) with different needs to larger organisations. Too often we pretend that we are a homogenous sector, all with the same needs. Importantly it presents arguments backed up with credible evidence.
It also challenges national umbrella organisations like NAVCA. With so many reasons why smaller organisations are vital, we must not be shy in calling for the help they need.

Joe Irvin is chief executive of NAVCA

The report is at: http://www.ippr.org

Independence Panel's Independence Under Threat

THIS REPORT HIGHLIGHTS THERE HAS BEEN AN EROSION OF THE UNIQUENESS OF CHARITIES OVER THE LAST 12 MONTHS AS WELL AS A DIRECT THREAT TO THE SECTOR'S INDEPENDENCE CAUSED BY THE GOVERNMENT. STEPHEN BUBB DOES NOT AGREE

Is the third sector's independence under threat? According to the Independence Panel report, it is. This important piece of work highlights the need for our sector to retain its ability to speak truth, to power and to articulate, without fear, the needs and demands of our beneficiaries. This role is core to our mission and our ability to deliver effectively.

The report highlights some interesting points, one being: "That there has been an erosion of the uniqueness of charities over the last 12 months as well as a direct threat to its independence caused by the Government." I don't agree with this.

The third sector has a variety of organisations that have specialist knowledge, commitment and enthusiasm to tackle problems within society, which is why the government has worked in partnership with third sector organisations since the welfare state was created.

The state must continue to work with charities at every level, drawing on the skills and knowledge found in the voluntary sector to fix deep rooted problems and re-connect society. Partnership with government is nothing new, yet the sector has remained rightly independent and proud of it.

The report notes that the Department of Communities and Local Government in December advised local authorities to stop funding "fake charities" that "lobby and call for more state regulation and more state funding". Organisations receiving funding to provide services on behalf of the state are used to attacks on their freedom of expression from some members of the Government and the media. But there is no fundamental conflict between providing those services and maintaining that independence of purpose and action.

In fact, funding from the State often facilitates our ability to speak out, a key aspect of independence. There are countless charities that receive public funding and are confident in speaking out and being critical of Government where necessary.

I accept that over-dependence on a major source of funding can restrict independence, but this applies just as much to an individual donor, a foundation or a company. Strong leadership from CEOs and boards is needed to protect and maintain independence.

At ACEVO I have always taken seriously the need to speak out on behalf of our members. An example of independence in action was my recent letter to the PM, setting out a number of public policy concerns. Although ACEVO receives funding from the State I had no hesitation in expressing these concerns, and we were keen to ensure the letter was publicised widely so Government takes notice.

But we couple this with working closely with Government in policy development and implementation. This brings me to the report's successful highlighting of some disgraceful examples of bad behaviour by the state, such as forcing charities to self-censure, and leaving organisations unable to challenge policies or speak out at national or local level because they fear losing contracts or influence and failure to comply with previously agreed codes of practice.

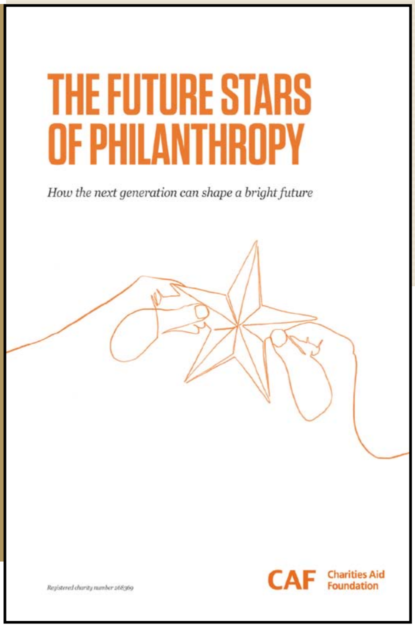
Preventing criticism is bad practice; we need better commissioning to stop charities withdrawing from working in partnership with the state, and more widespread use of principles such as those set out in the Compact Agreement, which supports effective joint working between the voluntary and public sectors.

We also need an end to gagging clauses on charities related to public service-delivery contracts such as the Work Programme. Having these safeguards in place will help the sector maintain its independence but one thing is clear though, as we get closer to the election we will find more pressure on us to keep quiet. ACEVO will resist this and we hope others will too.

Sir Stephen Bubb is chief executive of ACEVO

The report is available at: www.independencepanel.org.uk

Future Stars of Philanthropy by CAF



YOUNG PEOPLE MIGHT BE THE FUTURE STARS OF PHILANTHROPY, SAYS THIS FASCINATING REPORT, BUT MIND THE GAPS, WARNS CATHY PHAROAH

CAF seems much concerned with the role of young people in philanthropy at present. A research report, *Mind the Gap*, was published in September last year claiming that the gap between the generosity of younger people who give less and older people who give more, is widening. "There could be trouble ahead", it warns, "As our younger generations fail to keep up with their forebears in the generosity stakes". CAF calls for a new drive to build up the culture of giving among young people, but with the publication of *The Future Stars of Philanthropy* two months later, it appears that its anxieties were misplaced.

This new research report finds that: "The next generation of philanthropists are the beacons of hope for the future". Younger givers are already giving more than older givers on average, and those under 30 typically give more in absolute terms and as a proportion of their total wealth than older donors. These contrasting representations of young people are not the only things that do not quite add up in *The Future Stars of Philanthropy*. It focuses on "young, wealthy givers," and highlights that this is a group which "are already giving almost $3,000 more than older givers on average".

Apparently they give an average of $10,200 per annum (a few pages later reported as the much higher £10,196). Either figure, however, would indicate that this is a sample of young people with considerable financial resources, so it is surprising to see the report also make the opposite claim, finding that this group of young donors makes up for a lack of financial resources with "talent, enthusiasm and innovation'"

Who is Generation Y, the donor group at the heart of the report? I found it difficult to piece together the different pieces of information about Generation Y into a coherent picture. 'Generation Y' are, for example, said to be "go-getters", "young wealthy givers", who have already "racked up impressive CVs". Yet they are also apparently the group whose "sheer will-power" lay behind the Arab Spring, a movement usually represented as driven by young people threatened by poverty and lack of access to opportunity. Their age also presented me with some difficulties. Generation Y are described as having been born between 1980 and 1999, so many of them could only have been less than 14 at the time of the research study. Like *Mind the Gap*, this second CAF report about young people makes much of a generational divide in attitudes and behaviours around giving. Wealthy young donors are said to be much more interested in the impact of their gifts, than in the administration costs with which older donors are concerned. But claims about cross-generational communication differences seem contradictory. While younger donors are said to turn to their families to talk about their giving, older generations are 'understated', often wanting to remain anonymous or preferring to consult more formal sources such as accountants and lawyers. It seems that there must be a lot of one-sided conversations going on within wealthy young donors' families. In spite of several references to the 'understated' style of older generations, however, it turns out that "wealthy parents…are often keen to involve their children in charitable activity", and that "multi-generational philanthropy can be a rewarding and bonding experience for families."

CAF's concern to grow philanthropy at this time is one we all share. There has never been a greater need to understand how current economic pressures are affecting both young people's giving behaviours and attitudes. Do adverse times drive altruistic attitudes among young people, or suppress them? Are young people more engaged in giving, or less so? CAF's two reports on young people and giving are based on research drawn from two very different samples. One is based on a household survey which has weak representation of wealthier groups, and the other is based on a highly targeted and unique survey of the most wealthy. So is CAF really implying that there is a deficit in giving attitudes and behaviours amongst less wealthy young people, but that when you look at their wealthier counterparts, there is an abundance of generosity and innovation? This would be an unpalatable message indeed. I think it is time to stop talking 'young people' and 'generation Y' as if they were one group. Sweeping generalisations are not helpful at a time when poor economic growth is seeing the wealth divisions in our society bite even deeper.

Cathy Pharoah is Professor of Charity Funding at Cass Business School and Co-Director of the ESRC Research Centre

The paper is at: www.cafonline.org

For Good And Not For Keeps by R Jenkins & K Rogers

Sequels disappoint. But this second report on endowment asset management from the Association of Charitable Foundations is in the mould of the Godfather trilogy. They get better.

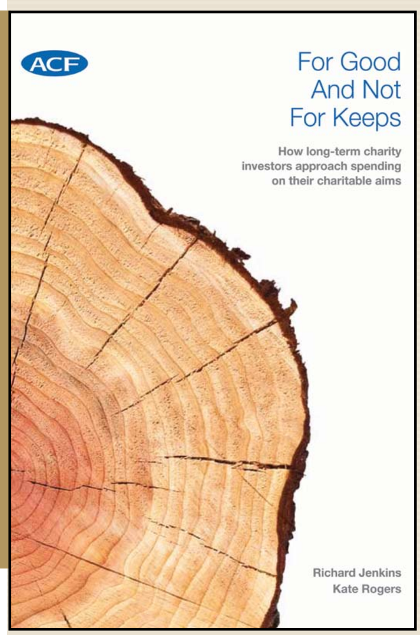
Richard Jenkins and Kate Rogers, authors of this report, have used the real-life behaviour of 226 charities to explore some of the tensions and myths behind investment decisions of long-term endowed charities. Esoteric perhaps, but these charities have assets of £119 billion and distribute £3 billion a year. More than is spent by the UK government on the police. What makes endowment charities special? They live off the original generosity of philanthropists and donors, driven by a particular cause. Active fundraising charities have to continue to make a compelling case in a crowded market place, which gives them a direct connection with the people whose money they are spending.

Endowments do not. Too often the focus is of "not messing it up on their watch", leaving the endowment pot intact as the best tangible measure of their stewardship. The very privilege that endowments have – of not having to muddy their hands with the cut and thrust of selling their cause – can make them lose sight of their mission and focus too much on asset preservation. I have to declare my perspective, as the FD of an endowment that produces 88% of our income. For some of our trustees, it must feel as if I have left the allegorical horse's head at their foot of their bed.

For the first time in 800 years, the Board is being challenged to adopt a new investment mandate, diversify asset allocation, implement total return, and introduce impact investing. But they should not worry. No assassinations are planned. Richard and Kate have helped re-frame the debate: do we bias the future against the present? Ever since James Tobin at Yale talked about intergenerational equity in the seventies, endowment trustees have grappled with this dilemma.

As the future is uncertain, caution creeps in. Better to spend less today, in case the future is grim and we will need to top up the endowment to preserve its future purchasing power. Using data from Dimson, Marsh and Staunton, this report shows that since the turn of the twentieth century equities have produced a 9.4% annual total return, 5% above UK inflation. Enough to spend 4% each year. Fine, but over the last decade real returns are now zero. Investment is not business as normal and it shows no likelihood of changing in our lifetime. Yet 80% of the charities polled stated that their ambition is to preserve the real value of their capital over the long-term. Put another way, a pot of money which, through the alchemy of the stock-market, is able to support constant spending that rises with inflation while similarly replenishing itself in the same way for infinity. Without fresh capital inflows, as illusory as unicorns. This is the horn of an endowment's dilemma. Even if the trustees spent nothing at all, there is no guarantee that the endowment would be protected in perpetuity.

JAMES MONEY-KYRLE FINDS THIS SECOND REPORT BUILDS ON THE FIRST, EFFECTIVELY EXPLORING SOME OF THE TENSIONS AND MYTHS BEHIND INVESTMENT DECISIONS OF LONG-TERM ENDOWED CHARITIES



If they spend at the average rate of 3% to 4%, there is only ever, at best, a 77% chance of capital preservation over a 30-year horizon. Over 10 years, it is just 50%. How risky is it for charity Boards to outsource their future to the success of the chosen investment managers? What this paper argues is that endowment trustees need to find their risk tolerance for longevity.

How important is it that you are around for the next 100 years? Hypothetically, for a medical disease charity spending out now to provide a cure rather than drip feed palliative care over the next century may represent success.

The long-term is usually a choice. Many endowments assume that they are permanent. But this is often not the case. Even if it is, a better focus is to think about the charity's mission; make investment choices that deliver that mission rather than worry about asset preservation.

James Brooke Turner, who edited the report, captured this elegiac dilemma succinctly,:"It is easier to be cautious than careful." If investment fees are close to 1%, then each year you are distributing between a ¼ and ½ of your charitable spending to money managers. Is this apt stewardship? I recommend this report as it helps refocus the conversation between executives, advisers and endowment trustees. It concludes with four simple rules. Pin them up.

James Money-Kyrle is Finance Director of a UK endowment trust

The report is available at: www.acf.org.uk

Charity finance

Government policy

CARON BRADSHAW **asks the Chancellor to meet the sector halfway in the run up to Budget 2013, by freeing up regulation so that the sector can follow opportunities without extra burdens**

It's been an exciting, sometimes frustrating time for the sector over the past two and a half years.

We've stopped trying to work out what is meant by the 'Big Society' now, but I still think we cannot say with hand on heart that we understand what the Government thinks the role of civil society is.

In many ways, as long as we keep doing what we do best, I'm not sure it matters.

However, no matter how independent we are as a sector, the Government impacts our ability to do our work.

The environment we work in is influenced by a wide range of factors: tax, regulation, public attitudes, the law, income availability, to name but a few.

The Government has the power to directly or indirectly influence all of these things.

To say the least, it would help to know where we stand.

This is why, in the lead up to Budget 2013, we're asking the Government to 'meet us half way'.

Being a 'glass half full' individual, I'm pleased we're sending out a positive and hopeful message about how we can work together to secure our future.

We're not asking for Government to solve all our problems, we're not even asking for more money (although if they listen, it might bring some in).

Instead we are asking them to look again at some of the tax and regulatory issues that frame the activity we do, and inhibit innovation, and see where we need them to help us move things along a bit.

Trading is a classic example. Take the delivery of services through public service contracts; so called primary purpose trading where charities carry out the trading activity in the delivery of their objects.

Charities can essentially do as much of this primary purpose trading as they like.

But what about when the charity is selling something which has little to do with their service delivery? What if the sale is made for the purpose of fundraising? This 'non-primary purpose' trading has more complicated rules.

Charities are limited in how much non-primary purpose trading they can do, and the limit is a very modest £50,000 in turnover a year.

This isn't for tax reasons – the trading subsidiary will Gift Aid its profits back to the charity anyway.

Whilst there are lots of reasons why charities might want to set up a trading subsidiary (say as part of risk management for a higher risk trading activity, where there may be a different structure for liabilities you want to apply) all too often trading activity is forced through a subsidiary when it really need not be.

This legal requirement is in itself a barrier to many charities that want to generate their own income in this way. They have to organise a separate board, prepare separate accounts, fund the subsidiary and possibly seek legal advice.

This is all a lot to take in for a small to medium sized charity looking to carry out some relatively simple trading activity in order to sustain its services.

And yet it's a consistent issue across the sector.

This is but one example of regulation that could be better framed to support our sector's ability to generate its income, remain independent and innovative, and be sustainable.

So our ask?

We don't want help setting up new trading activities, we don't want Government to start marketing charity services or publicly endorsing charity shops on the high street; we merely want the Government to meet us half way, by freeing up regulation so that we can follow opportunities without extra burdens.

These are difficult times for all of us and whatever the Government has in stall for the sector in Budget 2013, let's at least hope it is more of a success than last year where we saw the removal of an important zero-rating and the dreaded 'charity tax'.

We don't need a hand-out, we need lessons to be learned and informed decisions to be made about tax and regulation that will allow the sector to stand on our own two feet, compete fairly, and deliver the best we can for our beneficiaries.

So George, you don't need to give anything back this time (fingers crossed)…just meet us half way.

Caron Bradshaw is CEO at CFG

A Big European Society

Civil Society

After David Cameron's speech on Europe, FILIPPO ADDARII **puts forward his five building blocks for a Big European Society**

Listening to David Cameron's speech on Europe I was satisfied, even surprised. I found it more positive than expected. He acknowledged that it is in the best interest of the UK to stay in a flexible, adaptable and open European Union. He committed to a referendum, but in 2017 and once Europe will have been reformed; and on that basis he will campaign for a 'Yes' vote.

However, only weeks later the focus shifted back to how much money the EU will spend in the framework for 2014– 20. The Prime Minister came back from the Brussels negotiations, with the other heads of states, triumphant at having agreed real cuts to the EU budget. Are we already losing sight of the goals he set for the country and to make sense to people for such a Union? It's not just about how much money is spent, but what we want to achieve with it.

Many British people know the quote from John Donne's poem written in 1624: "No man is an island". In writing about humanity he used Europe as a metaphor. He described Europe as the continent from which you cannot cut any part without diminishing it. That still holds today. Europe has a very long history in which peoples came together, cooperated, and clashed. Nations and empires emerged and collapsed. Wars divided people as trade, culture and values united them. The EU is the final chapter of this story. It is more than a contract in which you can opt in or out based on a particular national interest. It is a collective project that generations have advanced to foster peace, justice and prosperity for the people of Europe and to build global governance.

These are the values of civil society and only a European Union firmly rooted in these principles can motivate people and justify the joint efforts which may mean shared sacrifices too. David Cameron opened a public debate touching on some of the fundamentals of the EU today. Now it is up to those who believe in those principles of Union to advance the argument and win it. I would suggest five building blocks for a Big European Society. Firstly, a Big European Society is based on peace with prosperity, the principle that inspired the European Union after World War II and recognised in the Nobel Prize for Peace. That shared prosperity between the peoples of the European Union is open to neighbours.

The principle of solidarity and openness to new comers are embedded in it. Secondly, a Big European Society relies on citizens taking control over their lives. This can happen despite the 'democratic deficit' and national institutions can't be the only source of legitimacy. Globalization is forcing us to look at democracy beyond the nation state. This might mean more power to the European Parliament or even a President elected by the people But the need for change should not be in question. The future of the EU can't be an affair to be solved by 28 head of states over dinner. Thirdly, a Big European Society has to be a leading force for growth and jobs, the main concern of the people. Society is spilling over with talent and ideas. The crisis has made civil society more active than ever. Charities, social enterprises, web entrepreneurs, even bankers converted to social impact are driving innovation.

The European Commission has reflected this trend by including the Social Business Initiative in the Single Market Act. However, we are far from an enabling environment for social innovators and entrepreneurs. There is a lack of visibility, access to capital or a clear legal framework. But this could re-launch European competitiveness meeting social and environmental goals. The UK is already building a track record on social investment and could champion the whole enterprise agenda. Fourthly, a Big European society recognises its duty to protect vulnerable groups and look after the environment. A guarantee to people's rights and environmental protection is the best basis for business to thrive in the long run. Social stability has been built on this basis and Scandinavian countries prove this is still a winning strategy.

Fifth, a Big European Society would not tolerate waste, bureaucracy and red tape that do not respond to the needs of people. The double seat of the Parliament in Strasbourg and Brussels had a meaning after WW2, but now? Lots of Brussels committees reflect a form of participatory democracy before internet but don't make sense today. Actually, they hinder genuine participation. The priority is to redirect all available resources to meet needs on the ground. We can deliver a Big European Society.

Filippo Addarii is executive director of the Euclid Network

Sector leadership

Organisations across the sector are facing different challenges, but ROB MACMILLAN argues that the value of the sector lies in doing what others cannot: whether that is question society, stand-up for communities, or champion unpopular causes

Sector difference

The vast array of groups and organisations that make up the third sector are extremely diverse. While some compete with private sector companies for government contracts, others operate with no paid staff and little or no funding.

Some organisations support disadvantaged people, others organise social or leisure activities.

Do these organisations have anything in common? Do they need a unified voice?

The Third Sector Research Centre has been holding a series of Futures Dialogues to debate the challenges facing the third sector.

A concern that has arisen again and again, whether talking about commissioning, independence, funding – is that the sector's diversity makes it difficult to speak about it as a single entity. Organisations across the sector are facing very different challenges, and are affected differently by economic and political change.

That said, people from right across the sector have expressed many similar concerns. The idea that the sector is, in some senses, facing 'crisis' – has been highlighted repeatedly. Some people talk about cuts, others about threats to mission or independence, others about struggling to compete for contracts, or having to adapt to a new environment.

While organisations have different stories to tell, there is certainly a sense of change across the sector – an 'unsettlement' of existing roles and relationships.

So what does this mean for leadership in the sector? TSRC's research noted that among third sector organisations field specific leadership, such as umbrella bodies for those working in mental health, housing or criminal justice, were often seen as more important than those seeking to represent the third sector as a whole. However, the research also highlighted the continuing importance of national level leadership, especially in influencing policy and public debate.

Leaders of local third sector organisations often do not have the time or resources themselves to influence the policies that affect their organisations and beneficiaries.

And this may take on a new significance at a time when concerns are being raised about the loss of independence within some parts of the sector, and some organisations are finding it hard to speak out on behalf of their beneficiaries.

In this context, third sector leadership may have an increasingly important role to play in speaking out on behalf of organisations that do not feel able to influence policy or debate.

Arguably, voluntary sector leadership already plays this role to an extent – and TSRC's leadership research has identified this as a function that many organisations find valuable. But our latest research paper asks whether leadership in the future might be based less on relationships with government, and more on far-sighted priorities or principles?

Could leaders, for example, play a greater role in enabling the sector to promote well-being and social justice, and 'speak truth to power'?

Of course we must not overlook the diversity here, and our research highlights the importance of leaders resonating with their constituencies, both through their personal experience, and ability to retain close connections with the day to day work of the organisations they speak for.

But our research also highlights the role for leadership in creating space for debate.

Throughout the Futures Dialogues people have called for the sector to assert both its value and its values in the face of challenges. Organisations offer many different values of course, but are there core values or principles that all in the sector could identify with, and sign up to?

Some have argued that the value of the sector lies in doing what others can't – whether that is providing a space to question society, voice the concerns of communities, champion unpopular causes, or cater for people that others cannot reach.

At a time when funding is low, public support is vital – and the third sector needs to promote a strong identity to maintain this public support. Leaders might never be able to speak for everyone. But they may be able to play a greater role in debating and promoting the sector's value and values on a larger scale - and enabling it to show how it makes a difference.

Rob Macmillan is research fellow at the Third Sector Research Centre

Investing for Good

Social Investment

The launch of the Good Investor is a sign that the social investment market is getting more sophisticated, but there's still work to do, says JONATHAN JENKINS

Investing for Good recently launched *The Good Investor*, a best practice guide to would-be social investors. It comes at a time where the UK is emerging as a world leader in social investment (or impact investment as it is more commonly known in the US).

2012 was a watershed year for social investment, with the creation of Big Society Capital and a range of other new initiatives. The groundwork has now been laid for the next decade of social investing to meet the growing demand for capital from the social sector, and playing a key role in creating jobs and bringing growth to more deprived communities.

For the Social Investment Business (SIB) Group, *The Good Investor* will be a valuable source of guidance as we meet this demand enable us to integrate the four parameters of impact risk, impact generation, financial risk and financial return into the decision making process.

Over the last few years the market has seen significant change and development with the arrival of the world's first social investment wholesale bank with £600m of new capital, the innovative use of a mainstream financial product in the social space with the launch of the first charity bond from Scope.

A social corporate finance sector has emerged with a range of new investment readiness initiatives, and new market infrastructure like the soon to be launched Social Stock Exchange, to connect capital to social need in this emerging asset class.

There are a growing number of investors – from foundations and high net worths to pension funds and institutional investors – who are attracted by the blend of financial and social returns offered by social investment.

There is also a growing infrastructure that connects capital to social need and this emerging asset class is set to grow very significantly over the next decade. Big Society Capital estimates that the market will be doing deals valued at more than £1bn in 2016.

The Social Investment Business Group has been making social investments for ten years and in that time it has made over £160 million of loan investments to a range of enterprises working primarily in healthcare, education and community services.

Up until recently the SIB Group has usually been associated with monitoring and reporting on specific numbers around the amount of money put to work, the percentage of bad debt etc, but only anecdotal on the impact of that money.

However, as the market matures this approach is not good enough, and a more active stance is required. Providing evidence of social impact is now a significant issue that intermediaries like The SIB Group and social purpose organisations will have to address should they wish to take advantage of the finance potentially available from less traditional sources.

We will be announcing new funds later in 2013 and welcome proposals for loan finance from social purpose organisations but investments will only be made in organisations that can evidence social impact.

At the SIB Group we have started work on integrating a social impact assessment into every stage of our investment due diligence process, and are continuously looking for ways to map, monitor and reward impact.

However, as it isn't enough to simply measure the hours of service delivered, beneficiaries reached or savings to the public purse, we are going to identify and measure what actually matters.

We stress the importance of an outcomes/beneficiary focus and the evidencing of outcomes (both qualitatively and quantitatively), tracking the progress of an organisation or programme against the social mission and including the perspective of the beneficiary when it comes to judging performance.

It's clear what makes the social investment market unique is the relationship with social impact. As an investor in this space it's no use just seeing financial metrics.

Impact reporting is just as important, the benefits of which are being much more widely recognised and industry wide standards of impact analysis such as the investor facing Good Investor and the social sector facing Good Analyst's Methodology for Impact Analysis and Assessment, which has also been developed by Investing For Good.

Find out more about both at: **www.investingforgood.co.uk**

Jonathan Jenkins is chief executive at Social Investment Business

Profile: Richard Hawkes, chief executive, Scope

Thinking differently

RICHARD HAWKES HAS SHIFTED THE NARRATIVE ABOUT SCOPE FROM AN OLD-FASHIONED CHARITY INTO AN ORGANISATION THAT IS A DYNAMIC FORCE FOR POSITIVE CHANGE. ANDREW HOLT MET HIM

If Richard Hawkes' highly effective tenure as CEO of Scope can be summed-up by one motto it is this: thinking differently. Having become CEO in January 2010, his three years in charge have been an impressive study in being innovative and different thinking.

This has underpinned his CEO strategy: "I have tried to shift the narrative about Scope from being an organisation that was quite an old-fashioned charity providing services and ran certain campaigns into an organisation that is a dynamic force for positive change."

The most significant change has been Scope's development of a £20m listed bond in partnership with Investing for Good as a re-usable way of generating large amounts of investment at varying yields and terms. Scope directs the money the bond raises into an expansion of high-street shops, with four new Scope shops opening so far, generating revenue for the charity, as well as allowing investors a return on their investment. The bond is listed on the Euro MTF stock exchange in Luxembourg, a stock exchange with a proven record for supporting social investment.

"The bond shifted the narrative from us being that old-fashioned charity asking for grants and donations into recognising that we are doing some serious business things and need investment in what we are doing," explains Hawkes.

The steer from Hawkes was for the charity to look outside the box and come up with ideas for raising finance. "This coincided with seeing our 250 shops as more than just raising money. But also as our brand presence on the high street and provide a good example of what we are tying to achieve overall."

Added to this was the realisation that 65 per cent of Scope's finance came from the Government purse. "We were, and still are, aware that this is an area that will not be increasing. So it was looking at what the bigger picture was telling us."

Driving the market

The Bond's first tranche of £2m, launched in October 2011, was based on what Scope needed at the time and has proved highly popular. "We have not launched the next tranche, because the first satisfied our financial needs for the year; we were able to attract the cash we needed and it moved faster than we originally thought in regards to starting the new shops," says Hawkes.

There was a great deal of crucial pro bono support from financial advisors and legal experts that proved pivotal to the success of the initiative. "There was a real will from all the people we were involved with to be successful. There was a lot riding on us being successful, because if it worked, it would help more people in the sector to follow this route and help drive the market."

Driving the market Hawkes and Scope is most certainly doing. And here, thinking differently has a wider and deeper lesson for the sector as a whole. Something Hawkes does not shy away from. "At times, there is a bit of arrogance within the sector. With the attitude that we are the charity sector; we know best."

He then warns: "The reality is if the charity sector is going to be strong in the future it has to look at itself differently: how to attract more people to be involved and embrace concepts like investments. We, as a sector, have not been very good at really challenging ourselves and at times, we have been too complacent. We need to encourage the challenge of impact measurement."

He expands on this theme, noting there has been an historical reluctance within the sector to fully analyse its own work. "Outcomes and impact and being clear on what we are here for, and knowing if we are successful, are vitally important. In the past, if you raised money on the back of a strong brand, that was enough; because nobody knew if what you did was any good, without asking: what outcomes are you achieving? What impact are you making? How are you changing things? I think there a lot of charities out there who are not clear on that."

But a large number of organisations have contacted Hawkes to ask how to do the bond, and develop something similar, which can only be a good sign for the sector as a whole. "We have spent time going through everything we have done with those who have asked, as it is in our interest for this to work more widely across the sector."

Scope have also discussed with the Treasury what the Government could be doing to encourage more people to invest in the sector. "At the moment there are no tax concessions or encouragement to lend to the charity sector, whereas there is tax encouragement to lend to other sectors."

Creative finance

The latest development for Scope is to develop relationships between an investor and a particular shop: in what is dubbed a sponsor a shop scheme. Hawkes says Scope can start a new shop for £40,000 and the charity's five best performing shops last year made a net surplus of over £100,000. "If that happens, you can get a return on investment within ten months."

Thinking differently again, Hawkes is looking at future creative forms of finance, whether it is social investment bonds or social impact bonds looking at partnerships with local authorities for the development of services on offer. "We need to learn from what we have done and adapt that with the different groups we work with," he says.

It has also brought into sharper focus how the charity uses its own finances. "We need to make sure that we are not using charitable income for services that should be provided by the State. However, there could be aspects such as information and advice that in normal circumstances local authorities would provide and fund, but in the future are not going to be. That therefore, has to be through us raising more charitable income."

Within the tough environment there are many challenges ahead for the charity. The Government's Work Programme is one issue that Scope have been on a front foot offensive. "This development of a narrative that is trying to suggest there are disabled people out there that are work shy: we do not believe that. We know that most disabled people who can work, want to work, do work, they just need the right sort of support to do that. We believe the test, the Work Capability Assessment, is a deeply flawed test, to decide who is fit for work.

"We do not think individuals are targeted properly, ensuring the right people are being assessed, that the assessment is therefore not delivering the right result and the right people are not getting the right support they need to be able to get a job and hold down a job. Therefore, it is not a surprise how few disabled people come out the other end with a job."

Furthermore, the accumulative impact of government cuts and policy changes will begin to hit home for disabled people, warns Hawkes. "The welfare changes will start to kick-in, so will local authority cuts, there will be a lack of funding for social care, and the combined impact is massive to disabled people."

But again, thinking differently, Hawkes doesn't see this dire situation as a strain on the charity. "It makes it even more important that we are as strong as we can be," he says.

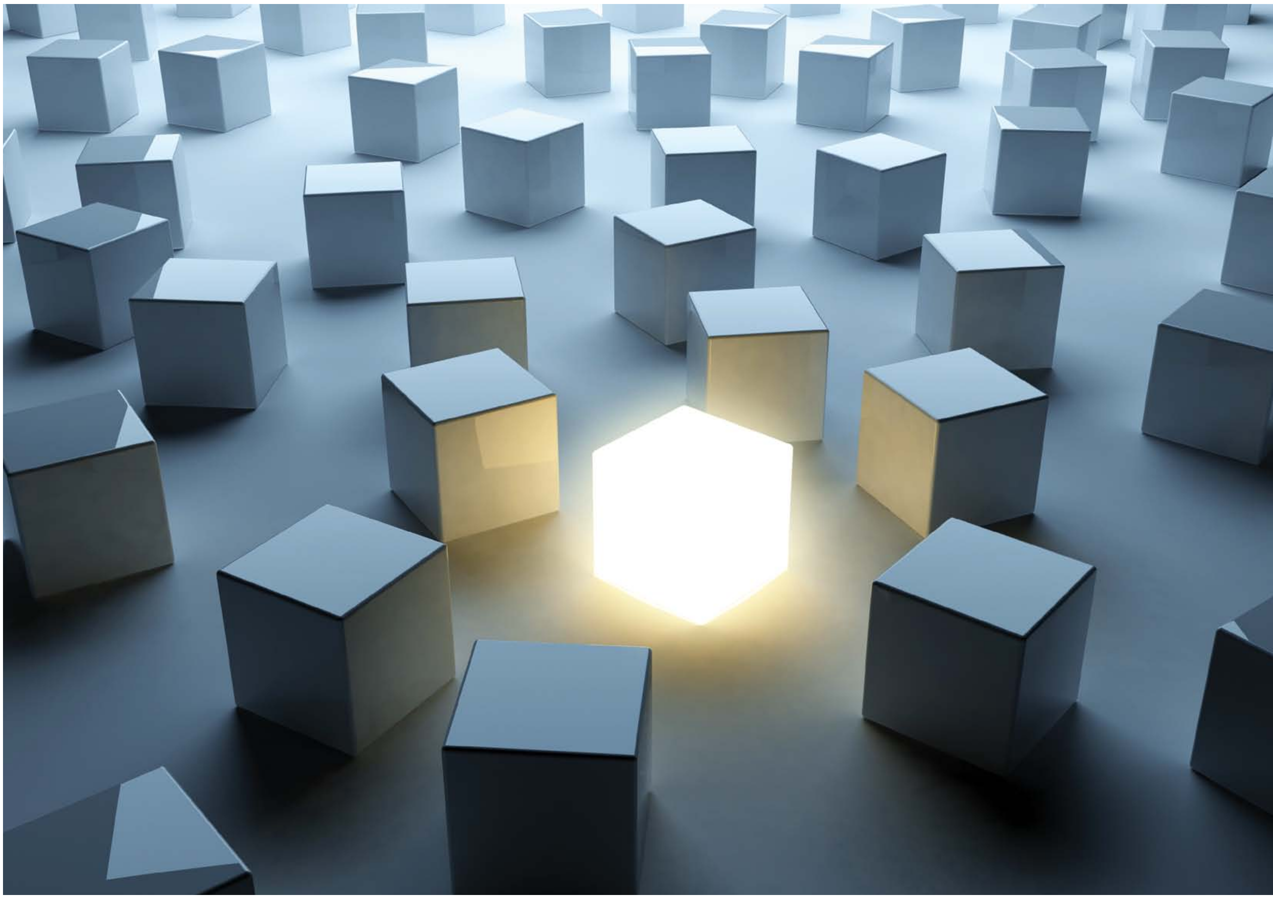
This brings us to the concept of the Big Society. To which Hawkes says: "The concept of making people more aware of their community and to volunteer is great, but we would argue we have been doing this for years. But if it is about charity and volunteering replacing the role of the State, then it is fundamentally flawed."

When asked why he made the move to become Scope CEO, he looks surprised, as if it is the craziest question in the world. "Honestly, it is one the best jobs in the sector. It is diverse and complex, understanding welfare and social care, legal issues, children and family issues, education, engagement with local authorities, the provision of services, and the retail operation."

Hawkes has a first-rate sector background: before joining Scope, he was the International Programmes Director of VSO, responsible for programmes in more than 40 countries, and the chief executive of Sense International, a charity supporting deaf and blind people in developing countries.

His thinking differently approach also allows for central thinking on the sector. "For me, the sector is about making the world a better place." With Hawkes changing the sector's thinking so effectively, the sector and society can only be a better place.

A unique sector?



Is the sector special?

What is the role of charities? Are they unique? Or do charities increasingly ape what other organisations can do just as well? Hugh Wilson investigates

AS PART of its series of Third Sector Future Dialogues, the Third Sector Research Centre (TSRC) recently published a discussion paper on the 'specialness' of charities. What exactly is it that makes charities special, it asked, and how should we measure what the sector does.

It was a well-timed intervention. Charities have been wrestling with the need to better measure what they do, and what impact it has, for a number of years. And more recently still, critics have been suggesting that what many charities do isn't so special at all.

The columns of national newspapers have been given over to discussions of charity independence, and what the authors claim are its gradual erosion in the race for Government contracts. Or, as Nick Seddon, deputy director of think-tank Reform, and author of *Who Cares?* puts it: "There's a bit of a feeling of 'he who pays the piper call the tune.'"

Before getting too far into that discussion, it's perhaps worth restating the obvious. Charities are special in that they are not created by statute and they do not exist to make a profit. Their structures of governance are unique. They are united by charitable endeavour.

But what about their role? Is that unique anymore, or do charities increasingly ape what other organisations can do just as well? Sir Stephen Bubb, CEO of the Association of Chief Executives of Voluntary Organisations (ACEVO), is unequivocal.

"The third sector is extremely unique," he says, "because there are a variety of organisations that have specialist knowledge, commitment and enthusiasm to tackle problems within society."

Current circumstances might mean more charities being contracted to deliver more state services, but that won't undermine the sector's independence, Sir Stephen argues. "The sector is rightly proud of its independence and there is no fundamental conflict between providing services on behalf of the state and maintaining that independence of purpose and action. There are countless charities that receive funding from government but are confident in speaking out and being critical of government where necessary."

Forced by cuts

While that is undoubtedly true, others argue that questions about what makes the sector different need to be asked. The discussion has been forced by the cuts, says Angus McCabe, who authored the TSRC paper, but these are difficult issues the sector should have addressed before.

Should charities be delivering public services, asks McCabe, "and should we be a professionalised and contract delivering sector – with, in some cases, the increasingly marginal role played by volunteers in this process?"

Is this in itself a dilution of charity 'specialness'? Ask a member of the public about the unique qualities of charities and the central involvement of committed bands of volunteers would probably come near the top of the list.

But the notion of specialness is a tricky one, McCabe argues, because in the past it has too often been based on rhetoric and sector mythology rather than hard fact and reasoned argument.

"Voluntary, or social, action is clearly different from either the State or the private sector," he says. "But how much real difference is there between a corporate body delivering, for example, prison and criminal justice services on contract to Government and a large charity doing exactly the same thing?"

It's a question that will soon be tested further, he believes. "How the sector reacts to the recently announced 'privatisation' of parts of the Probation service will be interesting."

Less money

Charities are aware that taking Government money - and delivering services that used to be provided by the state – complicates their position. Kate Allen, director of Amnesty International UK, believes charities that do so have to work hard to maintain their crucial, criticising role.

"Receiving government money doesn't mean that an organisation cannot be independent but it does need to think carefully about whether and how it can accept these funds while not pulling its punches when it comes to holding the government to account," she says.

"In a climate where there is less money around – and not just government money – the challenge for NGOs is to keep their critical edge and not to let the fact that they are seeking government funds stop them from challenging the Government when it doesn't deliver."

Indeed, part of Amnesty's specialness is that it relies very heavily on an army of members, each donating just £25 a year or so. The charity has 230,000 such donors in the UK and more than three million worldwide. That, says Allen, gives the charity a legitimacy no other type of organisation could match.

"I can speak to a government minister and she or he will know that those members and supporters stand behind me. Anyone who reads the research that underpins our work can trust that it has not been influenced by any political or other ideology."

Lisa Harker, head of strategy at the NSPCC, says that issues of independence and holding power to account are ones that all charities are wrestling with, regardless of whether they take Government money or not.

"Is it (a charity) speaking out, does it have integrity, is it being brave enough to ask critical questions of those in power?" she asks. "Those will always be important questions for the sector. At the NSPCC we take very little statutory funding so in some ways that makes our independence easier to maintain, but that question of 'are we speaking truth to power' never goes away, regardless of your funding base."

Nick Hurd, Minister for Civil Society, also believes that "their freedom to speak truth to power" is one of the factors that, "makes our diverse charitable sector one of the things that make Britain great."

Big Society

Nevertheless, Kate Allen says that she can see why you "might not want to bite the hand that feeds you", especially when the fundraising challenge is so difficult. That's clearly something the sector has to take seriously.

Can one of the things that make charities special – the ability to criticise and cajole from a position of independence, backed by an army of interested donors – be maintained when the object of your ire is holding a purse you have come to rely on?

The idea of the Big Society, much derided as it is, gives charities an ever more central role in communities. But if that expanding role is partly funded by Government, is there not a danger that the sector might come to be seen as just another arm of the state?

"There's a fear that a charity that takes too much Government money may be seen to lose their independence," says Nick Seddon. "It can't complain as easily, for fear that money will be cut. Then you get a situation where it starts to look more like a quango than an independent charity."

Having said that, Seddon is entirely

comfortable with the idea of charities taking public money and delivering Government services. The main problem, he says, is one of governance.

"From a board of governance perspective what you don't want to be is overexposed. Those big sums of money may be beguiling, particularly now, but taking so much of your money from one source has to be high up on a board's risk register, and more so when that money comes from government. Governments are notoriously capricious – they change policies and priorities and they change ministers. That's a huge risk for a charity overexposed to public funds."

Sector 'specialness'

The worry here is not just for a charity's independence, or 'specialness', but for its very survival, though Seddon says that 'mission drift' is one early potential consequence of the race for public funds. It's seven years or so since he wrote his book on charities, but he remembers incidents in even those relatively prosperous times of charities changing their mission statements after receiving public funds.

But if independence makes the sector special, so too does its unity of voice. Angus McCabe says that over the last two decades or so, the idea of a coherent sector has been pushed hard at national level to gain and sustain voice and influence with Government. Hundreds of disparate organisations have joined forces under the loose banner of 'social justice'.

"Since the 2010 election, that voice and the structures which supported it – for example, Strategic Partners, national network organisations such as Community Development Exchange and so on – has waned," says McCabe. "That unity – if it ever existed – has therefore cracked into at least two camps; those that broadly say they have a role to play in the Government's Welfare Reform agenda (provided that role is paid for) and those who are opposed to such reforms as a mere guise for dismantling the welfare state."

Does the sector speak with one voice anymore? Perhaps more importantly, can we talk seriously about a coherent 'sector' at all, given the term has to encompass everything from a small residents' association to Oxfam.

"What was perhaps always the case – and is even more so now – is a picture of a series of sub-sectors with different purposes and functions. Hence the emergence of a terminology which reflects this – the faith sector, the BME sector, the voluntary arts sector and, most recently 'the community food sector'," says McCabe.

Lisa Harker agrees. The NSPCC, she says, is part of a children's sub-sector, but also has a lot in common with other organisations, like the cancer charities, that don't rely on state funding.

This splintering of the sector is also reflected in the growing professionalism at its higher end. Many charities are quick to trumpet their private sector equivalence, and though private sector expertise and efficiency is broadly welcomed there is a concern that charities run in an overly 'business-like' way may lose some of the factors that make them special.

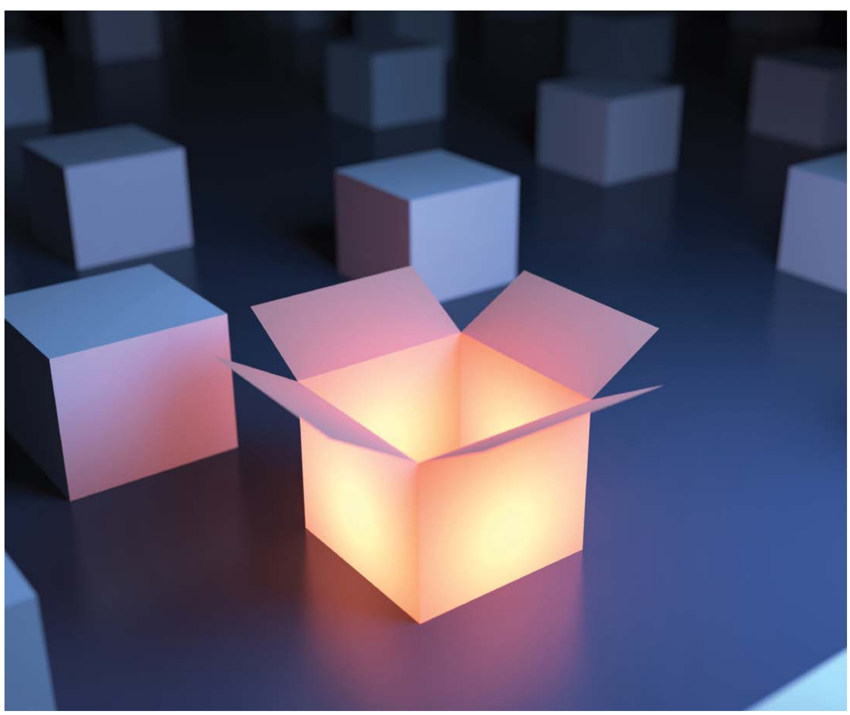
SROI obsession

That can be witnessed in the sector's drive towards the better measuring of impact. Calculating Social Return on Investment (SROI) has become something of an obsession. Showing donors what impact their money has is clearly useful and beneficial.

But it also splits the sector again, into those who can accurately measure their impact and those who can't, either because they can't afford to put the appropriate systems in place or because their impact is not easily measurable. Angus McCabe welcomes "some way of thinking consistently about impact" but is also worried that such thinking can become too financially driven and, where delivering public services is concerned, too driven by saving the Treasury money.

"What then happens to advocacy agencies where effectiveness may actually cost the state money by ensuring citizen's can claim their legal rights? Or what happens to those groups where their work has largely social purposes that exist beyond Government policy agendas?" he says.

What has to be resisted, say experts, is the temptation to use impact measurement as a form of competition. A sector squabbling over how much



public money it can save may start to look dangerously uncharitable. If it consistently goes head to head with private companies in a race to the bottom, can it really claim to be special?

"It is impossible to compare the impact of one organisation with another, or even sometimes to see the true impact of a single event until much later, so NGOs shouldn't be trying to compete over this," says Kate Allen of Amnesty. "Better simply to concentrate on their own, often brilliant, work."

There are plenty of examples of that 'brilliant work', of course. Much of what charities do is certainly special, and often uniquely so.

Amnesty UK couldn't be as effective without 230,000 members whose commitment to its cause is shown by their willingness to donate. And Lisa Harker says that people use the services of the NSPCC precisely because it is a charity and is not a statutory service.

"Talking about child abuse is a big step and both children and adults can be concerned about speaking out. We can offer through Childline a level of confidentiality that statutory services can't offer. We are a safe route into statutory services, a frontline service of a kind that can't be provided by the State."

The other thing charities have, she argues, is the freedom to take risks. While private companies are engaged in a race for profit and statutory bodies are bogged down in the day-to-day provision of services, charities have an opportunity to look further ahead.

Nick Hurd, meanwhile, talks about: "The way charities bring people together and give voice to people who need it most, and their power to connect people with the chance to make a positive difference with their time or money."

All that is undoubtedly special. To keep it that way, the sector as a whole may have to guard against what some see as the slow erosion of its independence, unity and sense of difference.

Hugh Wilson is a freelance journalist

ARE CHARITIES UNIQUE?

The debate started with a discussion paper from the Third Sector Research Centre citing there is little empirical evidence to demonstrate why the third sector is unique or distinctive.

The Centre since has helped to start a debate about how we value the sector, but raises caution about attempting to value the sector as a whole, or using a purely financial language to do so.

The key idea is as a sector we need to think about the functions and characteristics of different organisations, from service providers to community groups, and how they are special in different ways.

Third Sector Research Centre has welcomed moves to measure impact at one level, but notes that monetary systems of measurement, such as Social Return on Investment (SROI), may be limited in what they can measure.

Measuring impact is positive, as it requires evidence rather than assumptions that organisations are effective.

And it is in the interest of organisations to demonstrate a long term return on investment.

But, noted the TSRC, SROIs have tended to focus on services where there is a real or assumed saving to the treasury – such as reducing reoffending, or getting people into work.

The Centre questions whether things like social justice, fairness or belonging can be reduced to a financial concept of social value.

Received wisdom, and often experience, tells us that voluntary and community organisations are unique in their values

Angus McCabe, Third Sector Research Centre

They also question whether monetary concepts allow for critical reflections of the problem.

An intervention with a 'troubled family' may save money in the long term, but this does not allow for analysis of structural inequalities or discrimination that may have caused that family to be 'troubled' in the first place.

TSRC also observed that attempts to place a value on the impact of the sector may also avoid fundamental questions about what it is worth, and to whom – to commissioners and policy makers, to the sector itself, and to users and communities.

Angus McCabe from TSRC says: "Received wisdom, and often experience, tells us that voluntary and community organisations are unique; in their values, their closeness to communities, or their commitment to social justice. But for every 'truth' about the sector there is an opposite and potentially equal one, and it is hard to evidence such generalised characteristics.

"So how can we demonstrate the sector's worth? In financial terms, or in ways that value contributions to social justice and challenges to injustice? Many organisations have focused on survival in hard times. But to remain relevant, organisations need to demonstrate that they have value beyond a monetary one. They need to show that they are special and how."

A changing landscape

Taking the argument on, Rhodri Davies says that even if the State is not willing to pay for certain elements of the value that charities can bring, it does not destroy this value

THE QUESTION of whether charities are "special" or "unique" is one that has sustained an enormous amount of debate. For those fighting the corner of the voluntary sector in public policy debates, it is useful to be able to argue that the concerns of charities should be listened to because charities bring certain things to the table that could not be found elsewhere.

But does this claim stack up? I certainly believe that there is some substance to it, or I would not be working in voluntary sector policy. However, it is worth unpicking exactly what "specialness" is supposed to mean.

The simplest interpretation is that charities are special because they address needs and issues that organisations from other sectors cannot or will not address. This fits in with the idea of the sector as filling the gaps that are left by the State and the market.

However, this only works in situations where there are clear dividing lines between sectors: it may for instance work as a pitch to donors about the importance of a charity's work, on the basis that neither the public nor the private sector would provide a given service (an example might be the lifeboat service provided by the RNLI).

Blurring lines

Where the claim falls apart is when the lines become blurred. In many cases we are talking about issues that both charities and the State are seeking to address, or services that the public or private sector might want to deliver just as much as charities. The landscape that has developed in recent years is one in which there is a "mixed economy" of organisations from all sectors delivering services that address social needs.

If charities are not special because they address different issues to other sectors, then is it the way they go about addressing those issues that makes them special? This seems to be the position taken by many advocates of voluntary sector uniqueness, who identify a range of features that charities are argued to bring to the services they deliver.

These features include: the involvement of volunteers, the ability to reach marginalised groups, lack of a profit motive and particular governance structures.

There is a question mark over whether charities can actually bring these features to bear in the current framework of commissioned public services, where the way services are delivered is often highly prescribed, but perhaps this will change with the spread of payment-by-results approaches and the introduction of the Social Value Act.

What is for certain is that these features do have value in terms of the experience of service users, whether the State is willing to pay for them or not.

Perhaps the most important point is that, even if the State is not willing to pay for certain elements of the value that charities can bring, it at least does not actively destroy this value.

Raging debate

One of the clearest examples of this danger is with campaigning and advocacy. A debate has raged over whether charities that accept government money to provide services can or should campaign against government policy at the same time.

On this issue, I would agree with Sir Stephen Bubb that "there is no fundamental conflict between providing services on behalf of the State and maintaining independence of purpose and action".

However, it is clear that in practice there is often a tension, and that charities can feel under pressure from commissioners and others to tone down their advocacy.

This can lead to charities being caught between a rock and a hard place: should they accept money to deliver services that are in line with their mission and which meet the needs of their beneficiaries, if that means that they are less able to campaign on behalf of those beneficiaries for wider change to the system? If the end result is that charities voices are being silenced it is a real concern, because a vital element of the value of charities is being lost.

Rhodri Davies is Charities Aid Foundation's policy manager

A difficult landscape

Many charities are nervous and unsure about meeting their pension commitments. Joe Lepper dissects the complex world of charity pensions

CHARITY SECTOR pensions are in the midst of a dramatic overhaul as regulatory reform takes effect and charities battle to meet their changing retirement obligations.

Chief among the latest changes is a duty on all employers to provide and automatically enrol the vast majority of their workers in a pension scheme.

Auto enrolment applies to all staff earning more than £8,105 a year, but charities must also offer staff earning between £8,104 and £5,564 the chance to opt in to a pension scheme and make an employer contribution.

Even staff earning less than £5,564 are entitled to enrolment in a staff pension scheme under the new rules, although employers do not have to contribute if the salary is this low. Auto enrolment began being phased in based on payroll size in October last year, but the charity sector is not set to be affected until April, when the duty applies to employers with a payroll of less than 10,000 staff.

From April 2013 the UK's largest charities with a payroll of between 10,000 and 6,000 staff will be affected, with those with a payroll of between 4,100 and 6,000 being included the following month. By September all those employing more than 1,250 staff will be affected and by November the duty will apply to those employing more than 500 staff. Among the earliest to be affected is Barnardo's, which employs around 6,000 staff.

By the end of 2013 the duty will apply to charities employing less than 500 staff and during 2015 to 2017 those employing less than 30 staff will be affected.

Another key change, which like auto-enrolment has been brought through the 2008 Pensions Act, is a rolling programme of increased contributions from employers and employees. From October the minimum total pension contribution has been set at just 2 per cent, with half paid by the employer. But by October 2018 this will rise to an 8 per cent total contribution, with employers expected to contribute a minimum of 3 per cent. These changes present an enormous challenge to charities, especially those without a pension scheme in place.

Ill-prepared

But according to last year's ACEVO Pensions Survey and a survey of charity staff carried out by Unison this year, the charity sector appears ill prepared to meet its changing pensions obligations.

ACEVO found that 20 per cent of charities did not have a pension scheme in place, 35 per cent did not make pension contributions to all staff and 31 per cent had not yet considered a strategy to prepare for automatic enrolment. A similar proportion (32 per cent) had no idea when auto enrolment would affect them.

Unison's January 2013 pensions survey of 2,000 charity workers found little improvement, with 42 per cent saying they had not heard of auto-enrolment.

While Unison found that 84 per cent of staff had been offered enrolment, the union also found that 43 per cent were not in a scheme. The Charity Finance Group's head of policy and public affairs Jane Tully says charities should start preparing now to ensure they have a pensions scheme in place that is compatible with auto enrolment, even if reform does not affect them for a number of years.

She says: "There is so much to look into with the administrative side and assessing your workforce, asking who qualifies and ensuring you are telling them about it.

"We would estimate that it would take perhaps 18 months for some charities to get the right systems in place."

This call for early preparation is echoed by Charles Counsell, executive director for employer compliance at the Pensions Regulator, which is advising charities and other employers on pension reform.

He says: "Even if your staging date isn't until 2015, or later, an early discussion with your current pension provider is advisable. Find out if your existing scheme is a qualifying scheme. Then you need to consider if it will help your staff get a good deal from their retirement savings and meet your needs as an employer. "Leaving things until the last minute could make compliance with the law more costly and complex."

The charities which face the greatest challenge in implement are likely to be in the social care sector, says Ian Bird, equity partner at Foster Denevo, which advises 150 charities about their pensions.

Ian Bird, equity partner at, says: "It is not as clear as saying smaller charities are less likely to have a pension scheme. It is more about sectors and one of those where staff are traditionally not as well looked after in terms of pensions is in the care sector. Staff involvement, particularly among lower paid workers has been minimal here."

The Pensions Regulator has laid out a stage-by-stage plan for charities to ensure they are prepared for auto-enrolment and able to meet their pension reform obligations. Firstly, charities should check with the pensions regulator when auto enrolment affects them.

All employers are then urged to develop a plan, which includes assessing their workforce and how many will be entitled to auto-enrolment, as well as reviewing any existing pension arrangements. Key questions charities need to be asking, says the regulator, are how much can they afford to contribute as employers?

Charities should then ensure they communicate all changes to their staff, the Pension Regulator also advises.

Bird adds: "You will also have to ensure your IT systems are in place and you have the staff to be able to deal with the administration of this. It can be costly to get the adminis-trative systems in place in good time. Decisions will need to go passed trustees who meet maybe once every three months."

Youth and sustainable development charity Raleigh International, which until 2011 did not have a pension scheme in place, is among those to ensure it is well prepared for pension reform.

With pension reform likely to affect the charity in 2015 it decided to create a scheme that not only meets auto-enrolment commitments but also offers staff the chance to manage their plan based on risk and invest ethically.

Preparation started three years ago and included the hiring of Foster Denovo to fund a scheme that would be compatible with auto-enrolment. The first of its 60-strong workforce began enrolling during 2011 and 2012.

Although the minimum employer contribution of 3 per cent does not take affect for another five years the charity wanted to offer this from the start of the pension scheme to encourage take up.

But the charity's finance director Michelle Le Noury explains this is under review with raising the charity's contribution to 4 per cent under consideration to ensure the overall contribution can reach 8 per cent by October 2017 and take some of the burden of this rise away from staff. Although she adds: "But we need to look at our budgets to see if that is sustainable."

Communication with staff about the scheme has also been important to Raleigh, adds Le Noury, to ensure they get the best out of the scheme.

She says: "The pension scheme was presented to staff initially in August 2011 and a formal presentation took place in March last year. In addition, information about the pension scheme is presented to new staff as part of their induction process.

"Foster Denovo has face-to-face meetings with staff and goes through a risk profile questionnaire with the individual as there are options in the pension scheme as to how their contributions are invested."

While for those such as Raleigh International pension reform has provided the spark to launch their first pension scheme, for others reform is a chance to alter existing pension arrangements, such as employer contributions.

Tully says that many employer contributions in the charity sector are already above the minimum set under pension reform. "But I can see some charities using this reform as an opportunity to review their contributions and I can see some form of levelling out," she says. Although investment in the administrative side of setting up or changing a pensions scheme can be costly and time consuming there are ways of making this process easier, says Tully.

She says: "Having HR and payroll working together on this is key and can really make this process much easier."

But pension reform is not the only significant event to affect charity pension decisions over 2013. The need to address the charity sector pensions black hole for those with defined benefit schemes is still pressing.

While most schemes are closed to new members charities are now also looking to stop contributions to defined benefit schemes as they battle to meet their pension liability.

Barnardo's became one of the latest high profile charities to announce such a proposal in January 2013. Its director of finance Kevin Barnes announced in January the charity was considering closing its defined benefit staff pension scheme to future contributions from March 31 2013.

Barnes blames the "continued unprecedented economic conditions" for the move, which will affect a fifth of the charity's staff. Although he adds: "Staff will be offered access to a defined contribution pension scheme from April that is considerably more generous than the Government requirements for auto-enrolment."

Such action is indicative of nervousness among charities around meeting their defined benefit pension commitments, despite positive figures released in January in State Street's preliminary 2012 results for its WM UK Defined Benefit Pension Fund Universe and the WM UK Charity Fund Universe.

It expects that the year will have seen returns of 8 per cent pension funds and 11 per cent for charity funds, with those that have retained significant real asset exposures faring best. A second round of the European Central Bank's long term refinancing operation as well as efforts in the US to avoid the fiscal cliff, involving tax hikes and public spending cuts, have also fuelled optimism among fund managers.

But State Street admits the pensions landscape is still "a very difficult one" for asset owners and managers due to low global growth and the continuing Eurozone sovereign debt crisis.

Jeanette Patrizio, senior vice president of State Street Investment Analytics, says: "Whilst positive asset returns are very welcome, trustees and fund sponsors remain challenged with ultra-low bond yields continuing to weigh on the liability side of the balance sheet."

David Adkins, chief investment officer at The Pensions Trust advises those with defined benefit schemes to have a "well-diversified portfolio" and "sufficient liability risk hedging in place to match their attitude to risk."

Pension reform coupled with continued doubts about the resilience of the world economy look set to ensure 2013 is another rocky year for the charity pensions sector.

Joe Lepper is a freelance journalist

Charity Times Pensions deficit review

Pension deficits present a real issue for many of the UK's charities, and our survey of the top 20 charities by income reveals deficits in 17, with two running defined contribution schemes only and one with a surplus, and a combined deficit of nearly £900m. The figure of deficit rises even further to £2.6bn if the Church of England Pension Scheme is included (see notes).

The main cause of this issue is the vast liabilities created by defined benefit schemes or scheme section, most of which are now closed. Increased longevity combined relatively poor performance of assets over the economic slump have also contributed. Although an uncomfortable set of figures, many charities also have liabilities in mutli-employer schemes where the proportion of liability is difficult to determine with any accuracy, so that the total liability for the listed charities is likely to be higher still.

However, it is worth remembering that the liability is a total, that will be paid out over many years, and that in many cases the total investments of the charity would cover the 'holes' in the pension funds should it ever be required – but to do so would of course be detrimental to operational efficiency.

The following table presents the top 20 charities by total annual income and the pension liabilities.
Please read the notes to the table

Charity Name	Scheme Name	Total Fair Value of Scheme Assets £m
Cancer Research UK	**Cancer Research UK Pension Scheme**	**397.7**
The National Trust	**The National Trust Retirement and Death Benefits Scheme**	**407.6**
Charities Aid Foundation	**Pensions Trust Growth Plan (multi-employer)**	
Save the Children Fund	**DB Scheme**	**87.7**
Wellcome Trust	**Wellcome Trust Pension and Genome Research Limited Pension Plans**	**176**
	Wellcome Trust Pension Plan	112
	Genome Research Limited Pension Plan	64
Barnardo's	**Barnardo's Staff Pension Scheme**	**463.9**
British Heart Foundation	**Defined Benefit Scheme**	**30.6**
British Red Cross Society	**UK Office and Scottish Defined Benefit Pension Schemes**	**31.5**
Salvation Army Social Work Trust (and main)	**The Salvation Army Officers' and Employees' Pension Fund**	**199.5**
	The Salvation Army Officers' Pension Fund	106.4
	The Salvation Army Employees' Pension Fund	93.1
Girls' Day School Trust	**Independent Schools' Pension Scheme**	**50.4**
Action for Children	**Action for Children Pension Fund**	**375.1**
Kusuma Trust UK	n/a	**0**
Mencap	**Mencap Pension Scheme**	**73.6**
RNLI	**DB Scheme**	**213.9**
Assessment and Qualifications Alliance	**Combined totals**	**136.1**
	The AQA Pension Scheme	
	Greater Manchester Pension Fund (GMPF) share	
Age UK	**Defined Benefit Schemes**	**78.9**
	Age Concern Retirement Benefits Scheme (ACRBS)	37.8
	Help the Aged Final Salary Scheme (HtAFSS)	41.1
St Andrew's Healthcare	**St Andrew's Defined Benefit Pension Scheme**	**157.2**
NSPCC	**NSPCC Defined Benefit Pension Scheme**	**155.2**
Church Commissioners	**Combined Totals**	**605**
	The Church of England Pensions Scheme	0
	Defined Benefit Pension Scheme	0
	The Church of England Funded Pensions Scheme	605
Macmillan Cancer Support	**Macmillan Defined Benefit Scheme**	**31.2**
TOTALS		**3671.1**
Total including CoEPS, see notes		

GENERAL NOTES
Charities are ranked according to total incoming resources as defined in the Charity Performance Guide 2012 by DG Publishing.
Figures do not include smaller percentage liabilities for multi-employer schemes, as no reliable data is available for these.
Values do not always include smaller subsidiary schemes
Values are gathered under FRS17 where possible.
Generally data is for DB schemes unless liabilities accrue to DC schemes

NOTES TO FUNDS
CAF: *liabilities listed are contingent only.*
Save the Children: *there is also a Pension Trust Growth Plan multi-employer scheme.*
Wellcome Trust: *There are two schemes, the Wellcome Trust Pension Plan and the Genome Research Limited Pension Plan*
The British Red Cross: *also contributes to the Pensions Trust schemes.*
Salvation Army (inc Social Work Trust): *Two schemes, the Salvation Army Officers' Pension Fund and The Salvation Army Employees' Pension Fund for support staff.*
Girl's Day School Trust: *45% share of Independent Schools' Pension Scheme, values based on 2010 update of a 2008 valuation. Also contributes to Teachers' Pension Scheme, Northamptonshire County Council Pension Fund and Merseyside Pension Fund, no reliable figures available.*
Kusuma Trust UK: *DC scheme only*
Mencap: *Also has some commitment to a local authority scheme.*
Assessment and Qualifications Alliance (AQA Education): *The figures are for the AQA Pension Scheme and AQA's proportional interest in the Greater Manchester Pension Fund (GMPF). AQA also contributes to the Teachers' Pension Scheme and Universities Superannuation Scheme, but there is no clear view as to liability proportion.*
Age UK: *The charity runs two DB schemes resulting from its formation from Help the Aged and Age Concern. The figures are for the Group rather than the charity alone.*
St Andrew's Healthcare: *In addition to a main DB scheme, there are also some liabilities resulting from scheme closures.*
Church Commissioners: *The Church Commissioners hold a pensions liability against the investments of the charity as a whole, and as such there is no separate pension scheme fund, and therefore strictly no pension scheme liability. Investment assets are NOT listed here but are more than sufficient to cover this liability. However the fact remains that a liability exists for the purpose of pensions, without separated assets, and we have listed this as such. The figures are based on an older valuation adjusted for the accounting period by the organisation's accountants. In addition the Church Commissioners have several pension funds within the Church of England Pensions Board, the major two schemes are listed here, and again one has been adjusted.*
Macmillan Cancer Support: *The scheme currently has a surplus, and there are also shares of the NHS scheme and Teachers' Pension Scheme with no clear view as to liability proportion.*

Present Liabilities	Net Liability	Contingent	TOTAL	data date	Incoming Resources £m	data date
403.7	**-6**		**-6**	2012	**483**	2011
517.4	**-109.8**		**-109.8**	2012	**413**	2011
		-5.4	**-5.4**	2012	**399**	2011
120	**-32.3**	**-1.3**	**-33.6**	2011	**333**	2011
274.4	**-98.4**		**-98.4**	2012	**254**	2011
169.3	-57.3					
105.1	-41.1					
547.8	**-83.9**		**-83.9**	2012	**245**	2011
38	**-7.4**		**-7.4**	2012	**233**	2011
28.7	**2.8**		**2.8**	2011	**214**	2011
263.2	**-63.7**		**-63.7**	2012	**207(150)**	2011
165.7						
97.5						
63.2	**-12.8**		**-12.8**	2011	**201**	2011
430.7	**-55.6**		**-55.6**	2012	**195**	2010
0	**0**		**0**	2012	**195**	2011
93.3	**-19.7**		**-19.7**	2012	**194**	2011
247.3	**-33.4**		**-33.4**	2011	**173**	2011
155.2	**-19.1**		**-19.1**	2011	**159**	2011
				2011		
101	**-22.1**		**-22.1**	2012	**156**	2011
45.3						
55.7						
161.1	**-3.9**	**0.4**	**-3.5**	2012	**154**	2010
160.7	**-5.5**		**-5.5**	2012	**150**	2011
907.3	**-1993.6**		**-1993.6**	2011	**149**	2011
1691.3	-1691.3					
40.3	-40.3					
867	-262					
23.8	**7.4**		**7.4**	2011	**145**	2011
4536.8	**865.7**		**872.0**			
6228.1	*-2557.0*		*-2563.3*			

If you don't know where you want to go, it doesn't matter which road you take!

Sometimes I am asked a rather curious question: "Why should I bother with risk management?" We all do risk management all the time, you can't help it, it's part of decision making. Part of deciding how quick to drive when you are late or picking the right moment to ask the boss for a raise. Having been a risk management "luddite" not so long ago, I think what people are really asking is: "How can I use effective risk management to help make better decisions?"

The trouble with poor old risk management is that often gets bad press with rather extreme outcomes in health and safety situations. However, the risk management I am referring to is all about helping us to make the best business decisions. It is not about avoiding taking risk but being better informed for decision making and better able to deal with issues when they occur (which they will!).

This can dramatically reduce costs, delays and reputational damage. We often can and do make decisions about risks on the fly but our natural decision making is best suited to hunting with a spear many thousands of years ago. It is not well suited to more complex logic based decision making involving intertwined statistics. After all, it simply doesn't seem possible that in a room of just 22 people there's a greater than 50% chance that two people share the same birthday – yet the maths proves it (see www.managinguncertainty.co.uk/decisions).

Consider all the business, financial or sales plans you have ever done. Now, be honest, how many have ever worked out the way you intended? If it's any at all then you are doing well and are either lucky or already doing effective risk management! For the rest of us, plans fail, change or just don't work out as expected because over the course of the plan you are expecting a number of intricately linked events to all string together to form a fine line of success.

Only one single thing has to not work as intended and the plan is off course. If you have just five things strung together each with a seemingly high 80% chance of success then the overall chance of success is actually less than a third.

Whilst everyone from the Charity Commission to our Chief Execs expect us to do risk management, we are never really sure how to go about starting. It is not that difficult once you get going but it can seem very daunting to start with.

From experience the best advice is to tackle this in one of two ways depending on whether you have particular areas to focus on or whether you need to undertake risk for the whole organisation.

The first method is to start small. Consider just a department or project and build up the entire organisation's risk assessment hierarchy in a building block fashion. This way you are not swamped with too much to think about at once or attempting to try and solve all the problems in one go. Ensure that you have only one single objective for each assessment – a project completion or a business operation over a financial year. Do not try to deal with a number of different objectives in each risk assessment as it will add confusion between the different risks and actions for each objective.

The second method is to start at the top. It is very useful when considering a business from the top down – starting with a strategic assessment and then dealing at the next level down with something like a departmental assessment and so on. The structure is dependent on the way you all think about your business and the way it is already structured – it is whatever makes sense to your organisation.

Whichever method is chosen, work out what risk categories fit your organisation and place the risks in the relevant categories. Even though you might have the overall responsibility for the risk management, get those involved who know the particular area of the charity being considered.

Once you've started to break the task into bite sized chunks it will seem a lot easier. Next time I shall look at how you can start to define the risks themselves.

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In association with

RiskAid

Equality for all

Becky Slack looks at how charities can deal with trustee issues of diversity and recruitment

INCLUSIVITY IS at the heart of the charity sector's values. Equality for all, no matter what their gender, age, race, class or ability, is what drives many of its organisations, is the focus for their campaigning and is the very reason why many charities exist at all.

So it is somewhat surprising, therefore, to discover that there is a distinct lack of diversity at the top of many of these organisations. Charity sector leadership is dominated by white, middle-class, middle-aged men.

Instead of an equal mix of colour there is just a smattering of individuals from black and minority ethnic groups – just 3.3 per cent of trustees are African and African Caribbean and only 1.4 per cent are Asian, according to research by the NCVO.

Nor is there a wide range of ages. The average age of trustees is 57, and only 0.5 per cent sit in the 18 and 24 year old bracket – even though young people comprise 12 per cent of the adult population.

Women also suffer from a lack of representation. Despite the fact they make up 68 per cent of the charity sector's workforce, 61 per cent of its donors and the majority of volunteers, just 17 per cent of the top charity (by income & assets) boards are chaired by women, and just 29 per cent of the seats are held by women.

These figures, published in 2012 by Women Count, also demonstrate that parity is rare – only four charities have 50 per cent men and women on the board. Even a gender balance of 40/60 is still a long way off with only 22 per cent of all the charities surveyed achieving this balance.

And as for disabled trustees – so little attention has been paid to this demographic group that accurate figures are hard to come by, leaving this author to rely on anecdotal evidence which suggests that with the exception of those charities which work within the field of disability, very few trustee boards can boast anything other than able-bodied members.

Diverse boards?

These figures are disappointing. Not simply because they are counter to the sector's values but because board diversity can be highly advantageous. In its report, *Finding New Trustees: What Charities Need to Know*, the Charity Commission highlights how a mix of gender, race, age, ability and class can provide a charity with many skills, knowledge and experience to draw upon; can offer stakeholders greater assurance that it is fair and open in all its dealing; and can offer increased accountability for its actions.

"A diverse board brings a wider range of views to discussions, ensuring decisions are properly scrutinised, rather than have everyone thinking in exactly the same way," says Neal Green, the Commission's senior policy officer. "Diversity can also help trustees keep in touch with wider public attitudes as well as those of their beneficiaries, ensuring their decision-making is informed by all their stakeholders' views."

Governance consultant, Tesse Akpeki, agrees: "A strong driver of good governance is a diverse board. It's about moving away from it being a politically correct statement to it being something that matters. If you have a board of governors that doesn't have a balance of race, gender and age it's not actually going to be leveraging as much as it should be," she says.

Charity views on this issue appear mixed. On the one hand, the Charity Commission reports that 38 per cent of organisations do not deliberately recruit trustees from diverse backgrounds and 15 per cent have no intention of ever doing so – regardless of the benefits. On the other, the importance of board diversity has not gone unnoticed, according to a report by Trustees Unlimited. It found that one in five trustees believe their board lacks a diverse range of skills and over half (51 per cent) believe a more diverse board would enhance their effectiveness. So why this response to diversity and what can be done to improve the situation?

"People can be fearful of what they don't know," says Akpeki. In her experience, it is often not that a charity doesn't want to attract people from different backgrounds to its board, but that it is worried it might not work with them correctly.

"Crossing a boundary can be difficult if you don't have confidence. You may be scared you will say or do the wrong thing," she says. "But if you genuinely want to change something and you express commitment you may get it wrong but people will forgive you because your intention is right."

Trustee engagement

Similar fears have been found to discourage charities from recruiting young people, says Alex Swallow, chief executive of the Small Charities Coalition and founder of Young Trustees Network.

"A lot of charities lack confidence in engaging with young people. But at the same time young people lack the confidence in being a trustee," he says.

In his view, an open mind is critical to overcoming these barriers. "The important thing is that you start with the attitude that it's important to recruit young people," he says. "It's not to say that young people make better trustees, or that older people aren't any good, but if charities don't consider young people then the talent pool from which they can draw is diminished. For example, young people are more likely to have certain skills, such as technology and social media, and be attuned with different social trends and attitudes."

A strong driver of good governance is a diverse board. It's about moving away from it being a politically correct statement to it being something that matters.

Tesse Akpeki, governance consultant

Fear may be one barrier. Lack of awareness is another. According to the Charity Commission, less than 5 per cent of the public are aware that trusteeships are a way in which they can support a charity. Even when people do know about them, they can be unwilling to take on the role because they think they lack the necessary skills, do not want to give up the time or are concerned by the potential liabilities.

Similar trends were identified by Trustees Unlimited in its aforementioned report, which found that the number one obstacle to people becoming trustees is the lack of knowledge about where the opportunities are (33 per cent), a lack of knowledge about what trusteeship involves (25 per cent) and the fact that charities are not good at promoting their opportunities (21 per cent).

However, while poor communication about the opportunities available can be blamed in part for the sector's lack of diverse leadership, a certain portion of blame has to be applied to the recruitment techniques favoured by many – that of asking their friends and family.

"It is very much the case that when 'Johnny' has needed someone to join his board he has tapped up other members of his golf club," says Ian Joseph, chief executive of Trustees Unlimited.

Recruitment issues

Statistics from the Charity Commission back this view up. It found internal recruitment from existing staff, volunteers or members to be the most popular way to find new trustees (53%) while 46 per cent also rely on personal connections, such as friends, family members or work colleagues.

Just 23 per cent of charities use web advertising to recruit trustees, a figure that drops to 6 per cent for press advertising – and this is despite many outlets offering their services for free for this particular type of recruitment. Trustee bank, do-it.org and Charity Job are just three examples, while social media sites such as Twitter, Facebook and LinkedIn can also be used.

Target audience

If charities are serious about recruiting diverse, representative boards it is vital they cast their nets outside of their own circles – and importantly that they go to the places where their target audience can be found, as "they are not going to come to you" says Akpeki, who highlights the value networks and community centres can offer, such as the African Caribbean Business Network, the Asian Business Alliance, doctors surgeries, places of worship and student unions.

Critically, diversity shouldn't be tokenistic. A successful trustee recruitment scheme will also need to ensure that board members add value and have a role to play. "Make sure you've done skills audit," says Trustee Unlimited's Joseph. "Once you have identified where any gaps may be, you can then draw up an appropriate person specification."

There are plenty of resources available

to charities to assist them in this process, not least the Good Governance Code, which sets out a statement of best practice, including the need for diversity and for all trustees to undergo to a full induction process so they receive all the information and support they need to be effective.

The National Occupational Standards for Trustees highlight what needs to be done by trustees, not how they do it. Meanwhile, charities wanting to explore the value that youth can offer them should head to the Charity Commission's website where a check list has been provided to will help with key decisions such as whether to recruit a young person, the best way to do this and how they should be supported.

However, as the Women Count report points out, it is going to take more than new recruitment channels and codes of conduct for a real step change in diversity levels to be achieved. With the exception of the standard equality and diversity statements in annual reports and on websites, charities do little or no real reporting around organisational strategies or achievements.

Equality issues need to be identified, action needs to be taken and progress needs to be shared, both internally and externally. For it is only when diversity becomes an organisational priority will true equality be achieved.

Becky Slack is a freelance journalist

THE ROLE OF RECRUITMENT

A formal recruitment process has a crucial role to play in ensuring diversity. This should include:

- A skills audit to identify gaps in knowledge and expertise
- A job specification that details what is required of the trustee
- A nominations sub committee that leads on recruitment, preferably one that is diverse in itself
- A Memorandum of Understanding and Articles of Association that do not contain provisions which indirectly cause bias, such as the allotment of board seats on an ex-officio basis (where the qualifying position is usually held by a white, middle-aged, middle-class male)
- Advertising outside of the trustees' own networks, as well as use of the media, recruitment websites and consultants, and free resources, such as do-it.org

The lost decade

Andrew Holt

looks at the potential great rotation and eventual bounce in equities

GOODBYE TO ALL THAT wrote Robert Graves, and many have already said a very welcome goodbye to the 2000s, when the stock-market punished investors with an up-and-down ride that delivered no overall gains, and are now widely referred to as the lost decade, going down as one of the worst 10-year investment periods ever for equities. During this period, the S&P 500 registered two plunges of more than 50 per cent and several of more than 10 per cent, leaving this index slightly lower today than it was over 12 years ago. An investment in the FTSE 100 would have fallen in value by 4 per cent. There have been the peak-trough-peak-trough cycles of 2000, 2003, 2007, and most recently the lows of 2009.

Has this disappointment ended? There does appear a rising optimism and much reason for it: partly due to the disaster scenarios of a break-up of the Eurozone and the dive over the US fiscal cliff failed to come to fruition. Added to this, post-crisis adjustments have occurred with house prices rebalancing and possibly a rising trust in the competence of central banks to have used expansionary monetary policies to pull along the economies for which they are responsible for.

The great rotation

So will 2013 will be the year of the "great rotation" out of government bonds and into equities? To many, it seems obvious that the long-term returns from government bonds will be dismal, in real and nominal terms, so stocks are the asset to get into. The relative valuation of equities looks good; the dividend yield in many markets is higher than government bond yields, something that was common in the first half of the twentieth century, but has been rare since.

There is an increasing belief, and it has to be said hope, that we have moved into a post-crisis era and policy makers will ultimately act to prevent systemic events from materialising. There have been false dawns before, but there are a few differences with the past two years.

Iain Stealey, portfolio manager, Global Multi-Sector Income Strategy at JP Morgan Asset Management, says "Following a few strong final weeks of 2012, the positive momentum has continued for risk assets this year. Equities are up over 5 per cent. A sense of calm and optimism has descended over the markets."

A view reinforced by Russ Koesterich, BlackRock's chief investment strategist. "US equities are up around 4 per cent so far for the year, as are markets in Europe and much of Asia. Some of this can be attributed to temporary enthusiasm and seasonal strength and we do expect stocks to experience tougher going in February.

That said, notes Koesterich: "A continuation of 2 per cent economic growth combined with low inflation is not a bad environment for stocks. Equity valuations remain reasonable (particularly outside the United States), so we would view any near-term volatility as a potential buying opportunity."

Paul Causer, Invesco Perpetual's chief investment officer, says this year, his focus is increasingly on equities. "We have now raised our equity exposure to 14 per cent.

We think this could move considerably higher over coming years as banks return to profitability and distribute dividends."

Andrew Wauchope CIO at UBS Wealth Management, supports this scenario: "It is our view that many of the key elements for an overweight position in equities are in place. Market momentum is supportive, long-term valuations are appealing and global growth dynamics are improving."

Sentiment is also improving. "In December, for example, Intel sold $6bn in bonds to fund a buyback of its stock. This kind of corporate behaviour has led to equity market outperformance. US mutual funds took in more than $7.5bn in the first week of 2013, the largest weekly inflows in more than a decade," says Wauchope.

In a world of low growth and low inflation, where central banks remain accommodative, the good times can roll. "But," notes Stealey, "investors should be aware that this environment increases idiosyncratic risk and the need for active management and good issue selection becomes critical."

Within this, Andrew Cole, member of the Multi-Asset Team at Baring Asset Management, says: "We expect sterling to continue weakening and this should provide a useful fillip to what remains undemanding earnings expectations for UK stocks exposed to the wider global economy."

In another boost to growth prospects, the Basle committee on banking regulation announced an easing in the liquidity rules for banks. Regulators will now allow a greater range of assets in the liquid asset pool. Their action gained far less media attention than that of the US politicians, but will be equally important in supporting global growth by slowing the de-leveraging process of banks.

Reasons to be positive

Oliver Burns, an investment director on the Jupiter Private Client and Charities team, says there are a number of reasons to be positive. "The slow recovery from financial crisis – the financial world did not collapse although we might have come closer than we thought, stock markets tend to be forward looking and have now discounted a recovery of sorts. There is global growth – many regions of the world continue to grow strongly – many Western companies benefit from this – that is the FTSE 100 over 70 cent earnings are now overseas.

On monetary policy, Burns says low interest rates and low bond yields are forcing investors to seek other sources of income. "Dividends in this context look attractive – the current dividend yield on the FTSEE 100 is 3.5 per cent compared to 2.1 per cent for the 10 Year Gilt, and inflation protection – real rates of return from cash and western government bonds are negative providing no protection from inflation – one of the consequences on unorthodox monetary policy could be higher inflation so investors are seeking asset classes that may provide some inflation protection. Equities do not provide a perfect inflation hedge, however, they tend to perform better than bonds."

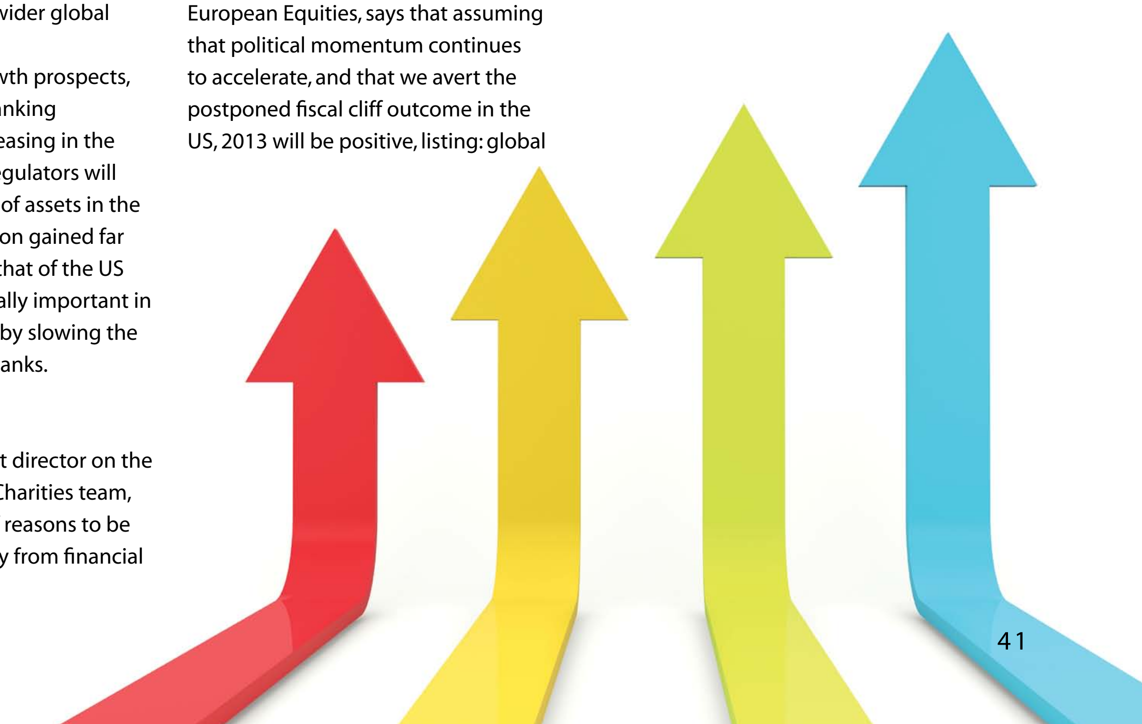
Burns concludes: "There does seem to be some evidence of investors returning to the stock market with UK equity unit trust sales rising strongly at the end of 2012 – albeit from low levels."

Nigel Bolton, head of BlackRock European Equities, says that assuming that political momentum continues to accelerate, and that we avert the postponed fiscal cliff outcome in the US, 2013 will be positive, listing: global economic momentum; promising structural reforms in Eurozone periphery countries gathering pace; supportive monetary policies across the world; attractive valuation levels for European equities both versus history, and versus other developed markets and versus other asset classes, and investor positioning that remains low in European equities.

Bolton adds that investors are slowly realising that their equity underweight position is no longer sensible. "We see potential total return for European equities of around 15 per cent in 2013. This assumes 9 per cent earnings per share growth, 4 per cent dividend and a small element of re-rating."

Politically, things seem more stable. There is the view that politicians will ultimately do the right thing; even if it means exhausting all the alternatives.

"For the Eurozone we still see a year of relative calm after the election year of 2012," says Burns. The up-and-coming Italian election looks set to deliver a government which will continue the Monti reforms and the focus will then be on Germany in September. In this scenario, the Greek crisis is taken out of the equation by the latest bail-out. But in the US, there is the possibility of another battle when the



debt ceiling expires on May 19.

Ultimately the economic imperative of keeping growth and the economy going has brought politicians to the right decision. However markets, particularly equities, have played a role in this. Should we now enter a period of financial market complacency, the incentive for politicians to act and the prospect of a favourable outcome will be reduced.

So where to invest? Invesco Perpetual's Adrian Bignell, says: "We are looking for companies that can grow organically above the rate of GDP. Secondly, we are looking at multinational growth stories. They are European listed companies that have large sales abroad: Nestlé has over 50 per cent of its sales in emerging markets and Unilever is the same. These companies can access international growth rates that are still attractive.

"Thirdly, we are looking for restructuring stories: companies that understand the macro is going to be tough, that top line growth is difficult to come by, and what they can do to improve earnings is restructure their cost base. The airlines are a really good example of this. Lufthansa has a cost cutting programme called Score."

Note of caution

That said, there is a cautionary note, with Stealey observing the global outlook is far from thrilling. "Even with all this ultra-accommodative policy from central banks, the developed world will not be returning to above trend growth anytime soon. The latest forecasts from the IMF agree as just last week they lowered 2013 growth expectations."

In addition, the prevalent 2012 tail risks may have been contained for the time being but they have certainly not been resolved. With the US debt ceiling deadline extension, the market will soon focus on the Budget Control Act sequestrations.

And more fundamentally, according to recent work by Elroy Dimson, Paul Marsh and Mike Staunton of the London Business School looking into equity returns since 1900, a low real interest rate is also a lower return world for equities – they expect equities to generate a real return of 3-3.5 per cent over 20-30 years, according to the *Credit Suisse Global Returns Yearbook* 2013.

Their data also shows that global bonds have delivered a better return than equities since the start of 1980. That is a problem because of the assumptions many investors have made about equities. Charities and endowments tend to spend 4 per cent of their portfolios each year; if their real return is only 3 per cent they will steadily deplete their spending power

"This creates a real challenge for charities, endowments and foundations who must assess the sustainable level of spending without destroying the long term value of any funds," says Burns.

But as Tom Stevenson, an investment director at Fidelity Worldwide Investment, observes: "Bull markets do tend to start when people are trumpeting the death of an asset class."

However, within the London Business School argument there are in fact a number of potential approaches to long term equity market valuation, such as trailing or forward Price Earning Ratios (P/E) or an adjusted ratio such as the Schiller P/E. Both can lead to "misleading" results.

In the case of the former, equities are likely to look expensive in recessions and cheap when earnings are booming. In the case of the Schiller P/E it can miss entire regimes of over and under valuation.

"Equity valuations cannot therefore be viewed in isolation," notes Wauchope. He adds: "Any effective model needs to take into account other long-term factors effecting valuations. Global growth dynamics are indeed good but, whilst sentiment is improving, sentiment remains relatively poor.

"Investors were clearly dismayed at stock markets failure to provide adequate risk adjusted returns over the last decade and the experience of equities producing annualised returns, that were nearly a fifth of those in bonds over the period, has re-enforced a fear of equity volatility."

Sentiment will therefore continue to play a significant role in determining market levels and, until there is a "sea change" in sentiment, therefore under this reading the "Great Rotation" may have to wait until investors finally decide to invest on a reasonable valuation basis, given the risks they perceive.

Wauchope adds: "We believe investor sentiment is likely to remain cautious, until there are clearer signs of problems being solved, or investors are happier to take on greater risk. For this reason, we are happy to have an over-weight to equity but only as part of a diversified portfolio. We continue to believe that investors should diversify as widely as possible to ensure they can manage potential volatility in what are still difficult markets."

Bouncing back

Robert Boddington plots the lost decade and predicts equities will ultimately make good progress

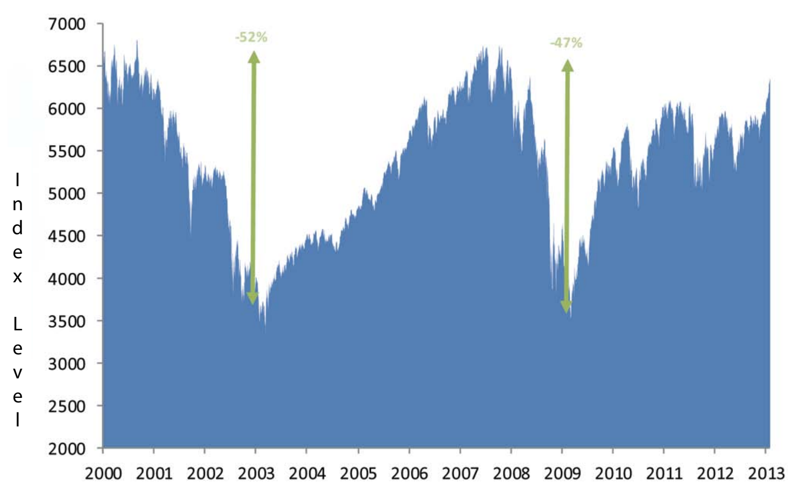
INVESTORS HAVE enjoyed a strong bounce in share prices over the last few months and understandably are asking whether this is just another bear market rally in the 'Lost Decade', or whether we are at last emerging from one of history's most disappointing periods for equities?

The Lost Decade (or perhaps we should call it the 'Lost Decade, or so' as it has been 13 years) is used to describe the period since the start of the Millennium, a period during which the UK stock market has made no progress in capital terms.

The chart on the top right plots the daily change in the FTSE 100 index, the UK's index of its largest companies, since the beginning of 2000. The start of the Millennium coincided with the peak in the UK stock market. Returns had been exceptional in the 1980s and second half of the 1990s and the average annual total return for the period 1995 – 1999 was over 20 per cent per annum, which with hindsight was unsustainable. It was a period when the internet and technology were starting to have a material impact on our lives and investors extrapolated this into inexorable profits growth. As this growth did not materialise quickly the dotcom bubble burst and share prices fell.

The volatility that followed was considerable, the FTSE 100 halved over the next 3 years before regaining most of the loss over the following 4 years as we approached the Financial Crisis – the rest, as they say, is history. It halved again over the next 18 months and even today the stock market is below the 1999 peak.

But to stop there would only tell half the story because whilst the stock market has stagnated, companies have continued to grow their profits and dividends. The table at the bottom of this page puts profit growth for UK companies into the context of the last century. UK corporate profits have grown by an average of 3.6 per cent per annum over the 13 years since 2000 (including an estimate for 2012). This is lower than the long term average



Source: Bloomberg

	UK Corporate Profits %	UK Inflation %	Real Growth in Profits %
1930s	2.1	0.4	1.7
1940s	7.8	2.8	4.9
1950s	6.8	4.1	2.6
1960s	4.7	3.7	1.0
1970s	15.9	13.1	2.5
1980s	13.6	6.9	6.3
1990s	5.8	3.5	2.2
2000 - 2012	3.6	3.0	0.6
1930 - 2012	7.2	4.5	2.6

Source: Barclays' Equity Gilt Study / FTSE and Sarasin & Partners

The reason for the poor equity returns over the last 13 years has been arguably more to do with its extraordinarily high initial valuation than a fundamental breakdown in the underlying companies in which they are investing

of 7.2 per cent per annum, but it is nevertheless growth.

If one considers the average growth in real terms (adjusting for inflation) the situation looks somewhat better. Inflation has averaged 3 per cent over the same 13 year period and real growth in profits has been +0.6 per cent per annum. Comparing growth in real terms is important as it puts into perspective periods such as the 1970s when inflation averaged 13.1 per cent, thus reducing the strong profits growth of 15.9 per cent to just 2.5 per cent (which is the long term average). If we use corporate dividends instead of profits, then the picture improves because dividends have grown by 4.7 per cent per annum over the same period, which is 1.1 per cent higher than profits. The chart overleaf shows firstly in the top half the performance of the UK's FTSE All Share index (blue line) against the earnings from those same companies (green line).

Dotcom bubble

In the period leading up to the Lost Decade, 1995 – 1999, the stock market rose much faster than profits, but thereafter the situation reversed with profits rising the fastest.

The bottom half of the chart shows the Price Earnings Ratio (its valuation rating) which highlights very clearly the rise in the valuation during the initial dotcom bubble period and the subsequent de-rating to where we are today.

While equities have stagnated for 13 years, their performance apparently bears no resemblance to the underlying profitability of companies.

Despite this, over the last few months investors have enjoyed a strong bounce in stock markets and investors are asking "is the recent equity bounce sustainable or is the 'equity model' broken?"

At Sarasin & Partners, we believe that the equity model is far from broken. The reason for the poor equity returns over the last 13 years has been arguably more to do with its extraordinarily high initial valuation than a fundamental breakdown in the underlying companies or economies in which we are investing.

The key drivers for share prices are: dividends, the growth in dividends and the revaluation of dividends (or put another way the price earnings multiple expansion or contraction). If we assume that there will be no re-rating, because we are starting from an average valuation level, then the key to future equity returns is the growth in dividends.

Cyclical crisis

History shows that dividend growth is reliant on economic growth so we need economic growth for equities to make progress. Is economic growth likely to revert to 'normal' over the next few years? We think there is every chance that it will improve, albeit not getting back to what is considered completely normal, for several reasons. While the recent cycle

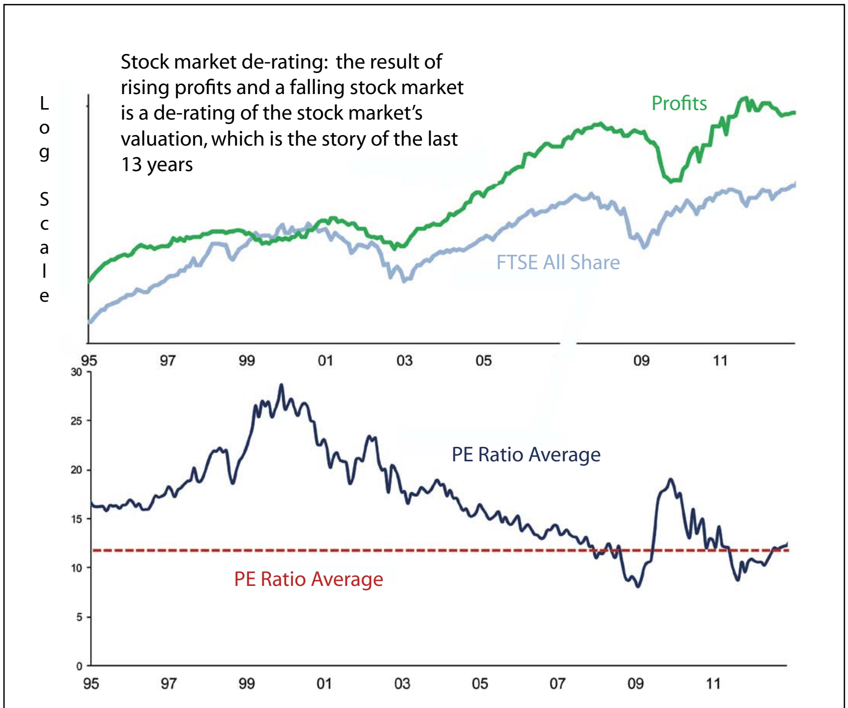
has been extreme because of the severity of the Financial Crisis, it is a cycle nevertheless and although cycles differ in terms of shape and duration, capitalism has a strong 'self-righting' mechanism that causes the elastic to eventually snap back.

It is not only capitalism that creates the cycle, the world's central banks via Financial Repression measures have created an environment that is highly stimulatory to encourage consumers and businesses to consume and invest and the Central Banks' desire to embed higher levels of nominal economic growth should not be underestimated as it helps to eradicate high levels of debt – let's hope that higher nominal economic growth results in higher real economic growth as well.

In addition there are powerful and inevitable demographic changes that lead us to believe that the global economy will continue to grow as it has done before, albeit with considerable help from the emerging countries. The global population is estimated to increase from 7 billion to 9 billion over the next 40 years. Not only will there be more people consuming but there will be investment in infrastructure, housing and cities.

Technology will continue to play its part in increasing productivity and helping raise agricultural yields which will be vital on our crowded planet. As well as more consumers, there will be a larger emerging market middle class and the wealth that this newly economically empowered society brings with it to spend on high value goods and services. Energy efficiency will need to be carefully managed in this environment but progress appears to be being made here as well.

Recovery usually takes longer after a recession that has resulted from a financial crisis and this cycle is unlikely to be any different because of the deleveraging and austerity programmes that are occurring in many of the advanced western countries.



Source: Ecowin

Economic growth tends to be lower for highly indebted economies (usually described as economies with debt/GDP ratios in excess of 100%), which is where most of the developed economies are likely to be. This is because some of the resources normally used for investment are used for interest and capital repayments instead, so it would be reasonable to make an allowance for this in medium term assumptions.

It would be wrong to isolate the analysis to the UK economy because UK companies are now truly global with over 70 per cent of the FTSE 100's earnings generated overseas. We believe that the world economy, despite high levels of debt in the developed world, will once again regain its upward momentum and should avoid a Japanese style multi-year period of deflation.

To conclude, the UK stock market has undergone a multi-year de-rating, but during this period corporate profits have continued to make progress, albeit at lower than average levels. Stock markets have recently performed strongly which we think is sustainable because we are starting from a reasonable valuation point and the world will continue to expand creating economic growth and corporate dividend growth. The severity of the Financial Crisis has meant that economic recovery is taking longer than usual, and high levels of debt will result in lower growth, but if we believe in history, equities will make good progress in this environment.

The UK stock market has undergone a multi-year de-rating, but during this period corporate profits have continued to make progress, albeit at lower than average levels. Stock markets have recently performed strongly

Robert Boddington is partner and chief client officer at Sarasin & Partners

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We not only support the third sector by finding the best calibre personnel, we also offer free meeting space, free advertising for volunteer roles and regular professional development seminars. And all fundraisers placed through TPP now receive a £100 CPD voucher to spend with the Institute of Fundraising.

RUNNING VESTS & T-SHIRTS

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runnerprint / winner are probably the number one supplier of sublimated and screen printed running vests and teeshirts to charities throughout the UK.

Over the past 20 years our client list has grown to include most of the nation's largest charities, but we also cater for the smaller organisation with less resources and are happy to quote for minimum orders of 50 in either vests or teeshirts or other items that we supply.

Advertise your services directly to our subscribers using our Suppliers Directory

If you are a supplier to the charity and not-for-profit sector and want to maintain consistent visibility amongst potential customers then why not include your company within the suppliers section of Charity Times.

Your entry would be listed for 12 months (print & online) and includes company logo, contact details and company description/products

Charity decision makers use this section to find suitable expert suppliers. So call us on 0207 562 2423 with your details and we will create a listing to ensure that your company is visible within this valuable resource.