PRICE BAILEY | CHARITY NEWS SPRING 2015

GROWING AND GIVING

Specialist advice and information from the Price Bailey Charities Team

Price Bailey
CHARTERED ACCOUNTANTS

Welcome to our charities and not for profit newsletter

This newsletter has been published and sourced independently by our specialist charity and not for profit team, which is headed by Helena Wilkinson.

Helena brings with her 25 years of experience in the sector and is supported in the team by Price Bailey Partners; Daren Moore, Richard Vass and Gary Miller who all bring their own invaluable experience and expertise.

With challenges to funding and a growing need to demonstrate commerciality, transparency, accountability and responsible governance in the sector, it takes a lot of dedication to keep a charity and not for profit organisation performing at its best, and we hope that our newsletter will help by keeping you updated and informed of the latest legislation and topical issues.

Events and updates

Our charity events are based in East Anglia and London and focus on topical issues related to the sector. For more details on our upcoming events please visit www.pricebailey.co.uk/events.

Is reputation a charity's most valuable or vulnerable asset?

This article was written by Richard Vass.

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In our previous newsletter we looked at the important role that internal audit can play in the charity sector helping to ensure that charities have adequate systems and controls that are operating effectively to reduce operational and financial risk.

Reputation is one of the most valuable assets a charity has and it is essential that this is recognised by trustees and that they take appropriate steps to safeguard this sometimes fragile asset. Reputation takes time to build and yet can be lost in a moment with potentially calamitous consequences to the charity. A charity's reputation underpins all of its activities. Critical operational funding is obtained on the back of reputation and it is even more important where a charity relies heavily on voluntary income.

Reputation continued...

So any question mark over the integrity and management of a charity could have serious ramifications on its ability to operate.

This reputation must be guarded carefully and as a whole the charity sector has been successful in maintaining their standing in the eyes of the general public. Surveys regularly show that people view well known charities much more favourably than they do leading private companies or public bodies and it is this public trust that underpins the charitable giving and volunteering that we see in the UK.

However, surveys carried out by Ipsos MORI into public trust and confidence in charities show over 5 separate polls that, whilst public support for charities remains high, there has been a slight decrease in the percentage of people who agree that "most charities are trustworthy and act in the public interest" falling gradually from 75% in 2010 to 71% in 2014. This suggests that charity trustees can ill afford to be complacent.

As public sector spending has declined in recent years some charities have become more reliant on the generosity of the public and evidence suggests that the public are becoming more discerning about how charities use their donations. Charities are now under more pressure to be able to demonstrate clearly the outcomes and impact that they will achieve with the monies that they receive. This is not only about charities justifying the proportion of their income that reaches the end cause. Our fundraising articles cover successful fund raising in more detail.

Strong and effective governance and well planned strategy go a long way to helping charities safeguard their reputation. One of the aspects that is often overlooked in an organisation is the plan on how to deal with negative publicity. It is important that you already have a detailed plan so that you can react quickly to the press with key messages to limit any potential damage. Sometimes, of course, this may mean taking no action. Another is to have a clear communication policy with dealing with the press and that everyone (including the staff and trustees) have a clear guide in what should be said to the media and are appropriately briefed on the charity's key messages. This is important for all communication, not just responding to a crisis.

An effective internal audit function should assist trustees with governance within the whole organisation and it can also help to maintain and grow the reputation of the charity. Internal audit can look specifically at your reputation risk and in particular your PR policy and procedures, communications and plans to comment on any weaknesses or where attention is needed.

In contrast to an external audit an internal audit allows for a more flexible and focused approach on both financial and non financial aspects of the charities operations. As such the internal audit teams can focus on current key risks and opportunities. This might involve reporting on systems which consider the effective use of the charity's resources, its strategy and assessment of its outcomes in order to provide valuable information on its operations and delivery of its objectives. Such internal focus can help enhance the organisation's reputation for sound financial and operational management and thus improve its ability to raise future funding through the way it interacts with the public, its beneficiaries, funders, trustees and other stakeholders.

So to answer the question "Is reputation a charity's most valuable or vulnerable asset?" I believe that it is indeed an extremely valuable asset for any charity that needs to be safeguarded. It can be vulnerable but with proper systems and controls in place this risk can be mitigated and a charity should be able to make the most of its reputation for the benefit of its beneficiaries.

To fundraise or not to fundraise?

That was the question Price Bailey posed to Daniel Williams, Chief Executive of Norfolk's Cancer Charity, Big C.

When I was approached to write this article for Price Bailey I was given a brief; '..... we are looking to have an article on the risks, rewards and challenges of fundraising – particularly in the current environment and a more competitive market place.'

Raising funds has been an integral part of my professional working life now for the best part of two decades, but I do not consider myself to be a professional charity fundraiser. I understand the mechanics of a number of fundraising initiatives, I understand the risks and rewards across most of them and I have been operationally involved in the development and roll out of strategic income generation strategies. But I am not a fundraiser. However I am passionate about empowering communities. My professional life working across the voluntary and community sector has straddled housing, youth and most recently health and social care. The consistent theme running through my time in these sectors has been a desire to empower those who are in most need to develop and sustain their own long lasting solutions. To do this, with some exceptions, funds are needed and they need to be raised, fundraising is therefore a symptom, a necessity, not a cause in itself.

This may appear to be a statement of the obvious but for me it is a fundamental starting point. Professional fundraising is becoming big business. Many privately run commercial operations are now cashing in on the professional fundraising phenomena; climbing mountains, cycling continents, jumping out of planes or even walking across hot coals. Plenty of people are making money out of fundraising. One or two of them are charities. Charities, mostly the larger ones, are investing more and more funds into some of these professional fundraising initiatives for what are ever decreasing rates of return. Fundraising has become an important sector of the UK economy and many VCS organisations who have not been a part of this economy are now considering entering. Before doing so I believe they should ask themselves two clear questions;

- Does our charitable vision and mission truly seek to empower a community or communities in current demonstrable need?
- Does this demonstrable need remain relevant when we ask our public for philanthropic support?

If taken seriously these should be hard questions to ask but I would strongly encourage trustees to do so with rigour and with integrity. If the answers to both questions are an emphatic 'yes' your organisation is probably already receiving unsolicited donations, however small or sporadic. If there is any concern across the board of trustees that the answer to either of these questions could be 'no' then a full strategic review of your charitable objects is required. Ensure that this review includes a detailed look at how your community needs might be more effectively met by working with other VCS, statutory or even private, yes private, sector organisations!

Too many charities are born out of self interest. This is understandable in many circumstances because that self interest is often a result of a major life trauma. I believe that VCS organisations must be prepared to really review and challenge their own reason for existence on a regular basis. If we are truly successful then by all accounts we should run ourselves out of existence. Charity for me is about meeting developmental needs through our communities which exist only for a period of time. As our society changes our communities change and their needs change and evolve with time.

So if you've read this far and I haven't persuaded you of the need to dissolve, merge or amend your charitable objects then let me address my brief from Price Bailey and try to offer some words of advice as to how to begin

Fundraising continued...

your foray into the wonderful world of fundraising.

I am an experiential learner and I love to listen to stories. I love the real life stories from those who have been key shapers and developers in the history of the charitable organisation. I like to take these people back to the moments when strategy was born, to really understand the key factors that motivated change or gave birth to ideas. They are often simple, often personal and almost always emotive. Irrespective of the age of your organisation the first step in your new fundraising strategy has to be to tell this story. Make sure that you can illustrate the story with a narrative that will resonate with your audience. The modern media world is crowded with stories, 'case studies' which translate the strategic message to a human level. You need to be able to play this game and you need to make your story stand out. You know you can do this because you only exist to empower those who's story you are telling; so tell it with passion and tell it with enthusiasm. If you can't really do this then I'm back to dissolution or merger I'm afraid!

You then need to package your story and make it representative of your brand. Our world is dominated by brand and your fundraising story needs to fit into this world. Your story needs to sum up who you are and why you are here. The constituent parts of what I believe make up your brand is probably the subject of another article but for now let's just focus on making sure you've addressed a couple of key principles;

- Does your logo and proposition (statement of intent) fit your story?
- Where can I find out more? Whether you are a multi million pound organisation with various electronic information portals and service touch points or a one man band with a Twitter account, you need to be able to direct your donors to find out more about you independently. Your charity commission reporting is important here as you want the narrative to remain consistent.
- Do your staff and trustees share a common understanding of your objects and will they pass the 'dinner test'. ie when asked over dinner what the charity does will a potential donor get the same answer from different staff or trustees?
- Do your staff and trustees own and recognise organisational values which are consistent with your objectives? Can you name them?

Like I say I could go on here but you get the idea. Your brand demonstrates your organisational integrity and your story needs to be told in the context of your brand. So you know you want to fundraise and you've got your story all lined up and ready to go. Now what? Well it's a big bad world out there and charities are doing pretty much anything and everything to raise funds these days. The truth is that your own fundraising strategy will need to be very much tailored to the specific size and shape of your own organisation but my own priority would be to try and ensure that your story can be told and repeated throughout your fundraising operations. I'm going to conclude with just a couple of headline areas you might want to consider with a brief summary of the pros and cons as I see them;

- **Legacy Giving**: Potentially enormous return but it's a long term strategy (at least ten years) and requires targeted strategic investment. Constant drip feed through all operations and target those who write wills in telling your story.
- **Retail Trading:** High street presence is huge in raising your profile and the trading will deliver a steady long term revenue stream which can be supplemented through gift aid and starts coming in quickly. Return on investment is comparatively low and the market place is already busy.
- **Community FR:** What I would call the heart and soul of fundraising; true community action as you encourage your community to take action through challenges, marathons, coffee mornings, events, etc. This is hard work and return on investment is decreasing as more and more charities ask people to act for them. However for any community based organisation it is an essential part of your work, ensuring that you are providing a platform for everybody to be able to give.

Fundraising continued...

- **Individual Giving:** Here I would include regular giving, special day giving, one off donations and in memoriam giving. Again it is a core platform and you need to ensure that you have enough channels open and that your management processes can appropriately recognise and thank your donors.
- **Lottery / Raffle:** For some charities the lottery has become an enormous source of regular revenue income but this takes considerable time and investment. With the various national lotteries this is also now a busy market place. My own endeavours used a third party lottery agent who take 50% of your revenue income but shoulder 100% of the administration and compliance whilst also ensuring a sufficient player platform from day one to be able to deliver a substantial enough prize fund. We have not generated substantial income but I think this type of initiative works best with consistent and hard promotion.
- **Online:** For starters this is really about ensuring that you have the online giving portals open and that you remove as many barriers to donation as possible. That means as few clicks as possible and robust data protection protocols. Once you've got these basics sorted online giving is becoming increasingly diverse and I think represents substantial opportunity for the future as we learn to use technology to better engage and keep our supporters up to date with what we are doing. Social media is proving to have enormous influence over the ways we donate and is a key part of both your fundraising and communications strategies.
- **High Net Worth:** First you need to know who they are. Organisationally you need to think as though every supporter you engage with could be your millionaire benefactor and treat them as such. Good old fashioned customer service is a must. As you build your supporter database and your knowledge of them there are specialist organisations and softwares that can be applied to help you filter out those you might wish to target.
- **Trusts and Foundations:** With endowment interest rates at an all time prolonged low T and Fs have scaled back their grant giving over recent years out of necessity. However if you are innovating, if your story is strong and it resonates with the trust or foundation objectives this can be a very effective income stream with a high return on investment. Be mindful though it won't address your revenue funding needs.
- **Corporates:** Personally I have always dealt with corporate organisations, both those that lead them and those that work for them, as a part of the community. I think this approach is becoming more and more appropriate as corporate organisations look to give back quite specifically to the communities in which they operate and to causes which resonate with their workforce. If you have a strong community fundraising platform then you are ready to engage corporates but be prepared to share the love. Corporate organisations will often want to champion a cause for a period of time so just be patient, if your story is a good one they will come back around.
- **Investment:** This is of course a luxury that will not be open to many charities but for some with a level of reserves being maintained to ensure that your services can remain in place through an extended rainy season, effective strategic placement of your investments can still generate a reasonable level of return.

I am afraid this really has been a whistle stop tour of just a few of the fundraising options that are open to you. If you would like to get in touch or know more about some of my experiences you can find me on Twitter @Your_Norfolk.

Daniel Williams, Chief Executive of Big C
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Strategic plans

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With any strategy it is not only important to consider what you do but also what you do not do (and why).

Too often plans can be focused on the charity just continuing in the same vein, without necessarily reviewing whether this is the most appropriate way to serve current need of beneficiaries or the best use of resources.

Have you challenged the status quo, even if it means restructuring or significant change or merger? How do you know which aspects of your work are crucial to keep going at all costs as opposed to those that are more peripheral and how sure are you of this assessment between the two? Do you measure the right things that give you relevant, reliable information to inform your charity on the impact that it makes in the activities it undertakes?

Income generation can also be focused on chasing available funding that is broadly in line with your mission. In chasing such funds, it is easy to drift away from your mission and purpose. One of the greatest risks to any strategic plan for most charities is funding and managing the associated risks. Therefore, it is important that the charity takes stock once in a while and produces a long term plan which thoroughly reviews the organisation, what it does, how it will be funded, its financial strategy and business model - normally covering no more than 5 years. These plans take a lot of effort by the senior management team and the trustees to produce, so it is important that this plan then does not just get put on the shelf but is actively reviewed each year to monitor progress, review and realign the plan as necessary.

With the charity world changing generally and funders requiring more evidence of the impact of the organisation, charities need to take a long hard look at their organisation. In current times, with government funding being cut, riskier payments by results contracts starting to become more prominent, donations and fundraising being impacted by the economic climate which is also increasing demand on many charities, it is more important than ever to plan. The Charity Commission produced a guide - 'Big Board Talk - 15 questions trustees need to ask' in December 2012 to help charities steer their way through this process and focus on key questions. The questions are logical and would be advisable for any organisation undertaking a strategic review to consider, and are focused on four key areas which are essential in any plan:

- Strategy – opportunities and risks
- Financial Health
- Governance
- Making the best use of resources

How do you deal with future uncertainties?
Considering opportunities and threats are a key aspect of strategic planning – particularly external influences over which you have no control. Potential changes in tax legislation – such as the withdrawal (or expansion!) of certain VAT reliefs for charities; a potential change to the way service contracts versus grants are classified for VAT purposes; or the after effects of the government elections on future government funding are examples that could affect your charity. Have you considered the potential effect on your organisation?

The effects of external factors on the charity are not necessarily able to be eliminated but it is important that they are considered and the inherent risks behind the financial strategy and business model are understood by all. So scenario planning will perhaps involve considering loss of key income sources/contracts or reduction in values with mitigating factors including reserve levels and their use, mergers or collaborations, increase/start fundraising activities, seeking new income streams and income diversification or simply ceasing/scaling back activities.

Strategic plans continued...

When do you use your reserves?
The aim for any trustees is for them to look after the organisation during their tenure and to hand over a healthy and thriving organisation to new trustees when they retire from their role. Reserves can quite often be seen as monies to be held for a rainy day, a buffer and not to be spent. The level of reserves of a charity are often not discussed or considered by the Board of Trustees in their strategic plans - the focus can often be more on the budgeted surplus or deficit for the year. Reserves are usually considered once a year when the reserves policy is being looked at in the annual accounts and justified at that time without any flow through to the strategy and future plans.

The fact that reserves represent unspent income can often be overlooked, and most charities do not have the power to accumulate funds and should be applying their resources to charitable purposes. Therefore when charities hold reserves they are balancing the need to spend on their beneficiaries or charitable purpose against the need to hold funds to manage risks. By not spending reserves you are depriving the charity from being able to apply money to deliver its charitable objectives - which is one of the duties of trustees. Reserves do have an important part to play in any organisation whether commercial or a charity to cope with liquidity and working capital needs, funds for future development, risk assessments and future planning. In order to make any informed decisions about reserve levels, the strategic plan needs to consider how the charity is financed. Are funds raised by the charity in advance before being spent – from funders, service contracts or fees? In which case the view may be that the charity operates in a lower financial risk model and the level of reserves needed may be more modest. Or is income received in areas, after delivery of the activity with clawbacks or performance criteria dictating the final amounts that may be received? In which case the working capital requirements may be higher if borrowings or social investments are not available to bridge the gap.

The key message is that reserves levels need to be as actively managed as are budgets, income and cashflows in the strategic plan so informed decisions can be made as to when to retain amounts and when to spend. You could be using your reserves to fund new development and investment in services for beneficiaries or for income generation plans – do you know if your reserves are all required to be retained or do you have any spare? When you look at your reserves policy do you understand why the policy says what it does? Why, for example, is 3 months operating costs required not 6 or 2; and is this actually the right reason in the first place?

What are your principal risks?
One of the key changes in the Trustees Report is to the risk statement – to move it from being boiler plate to specific to your organisation. Larger charitable companies who have had to include a Strategic Report have already had to include such information. Other charities (i.e. those that are required to be audited) will be required to do so under either versions of the new SORPs adopted. So the Trustees Report must include the principal risks and uncertainties facing the charity (or group) together with a summary of your plans and strategies for mitigating those risks. This is another reason to have formulated your strategic plan – to be ready for the new SORP – but more importantly to be ready for what the future may throw at your organisation. Good governance flows from identifying and actively managing the organisation and its risks – so go forth and plan!

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