Autumn 2015

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PIMBs BRIEFING

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LETTER FROM THE EDITORS

Welcome to our Autumn briefing for professional institutes and membership bodies.

In this edition we are pleased to have a guest article from Professor Andy Friedman, CEO of the Professional Association Research Network (PARN) on the health of the professional body sector following the launch of PARN's latest financial benchmarking survey in October.

Another interesting discussion at the October PARN Finance Special Interest Group centred around the use of lay members on committees. Here Richard Weaver explores the role of lay members from a governance perspective.

We are also delighted to have a guest article from Melanie Roberts, Business Partner at Sarasin, who considers the key criteria for assessing your investment manager.

We look at whether you are prepared for FRS 102, the new accounting standards which you will be required to comply with for accounting periods starting on or after 1 January 2015. What areas do you need to consider in advance of your up and coming financial year end?

Phil Salmon provides details on a VAT update regarding Exhibition charges and the shift in policy from HMRC.

Finally, we have provided some key updates in charity reporting and regulation for our readers that are registered charities.

We hope you enjoy reading this edition of our PIMBs Briefing and if you have any queries on any of the points raised in these articles, please do not hesitate to contact one of our team.

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HEALTH OF THE PROFESSIONAL BODY SECTOR

The finances of UK professional bodies have improved substantially during the reporting year to November 2014. While this does not apply to all organisations, the sector as a whole and most parts of it, are in a much healthier state than a year ago. In addition, progress over the past five years has been remarkable.

This healthy conclusion is revealed in the PARN/haysmacintyre Financial Benchmarking Report of 2015, launched on 14 October. The report contains information from the annual reports of 408 professional bodies. It reveals strong financial progress in the year from 2013 to 2014.

Surplus for the sector as a whole rose from £143 million in 2013, to £216 million in 2014 representing 7.56% of total income. Total income for 2014 was £2.64 billion, up by 3.9% from 2013. Total reserves grew by a really substantial 20% to £2.55 billion. Reserves as a proportion of total income rose from 106% to 111%. The number of members rose by 1.8% and the number of FTE employees by 3.9%. Another interesting indicator of progress is income per member which rose from £695 to £744 on average.

This year follows fairly steady progress of the sector since the recession. In 2009 the first of our annual Financial Benchmarking Reports showed that the sector was losing money with deficits at 6.5% of total income on average. More than half (55%) of professional bodies were in deficit. In 2010 this was turned around to a small surplus of 2.91% of income on average, with 40% in deficit. By 2011 this had improved much further to a surplus representing, on average, 5.84% of income and only 28% in deficit.

However, in 2012 the sector had moved back into a deficit of £49 million overall, with 39% of professional bodies in deficit. While nowhere near as serious as in 2009, it was a worrying reversal of the improvement of the previous two years.

The path of recovery for most resumed in 2013 with a return to overall surplus and a reduction of the proportion in deficit to 34%. Our latest Financial Benchmarking report shows further improvement of the sector, with overall surplus rising again from 4.33% of total income on average to 7.56% and the proportion in deficit falling further to 23%.

Moving from over half to just under a quarter of professional bodies in deficit has been a really positive improvement. However, it still indicates that many professional bodies are in some distress (except for those purposely running down reserves to invest).

While the professional body sector as a whole did very well between 2013 and 2014, certain sub-sectors are in particularly good shape. Professional bodies in the Health sub-sector are larger and more successful than average. Health sub-sector professional bodies account for 28% of the professional body sector. Their average total income was £10.0m compared with £8.3m for all professional bodies in 2014. They achieved much higher surpluses as a percentage of total income of 9.55% in 2014.

The pattern of financial results by size of professional bodies is interesting. It is worth noting that most professional bodies are SMEs; 91% have less than 250 full time equivalent employees (FTEs), 30% are micro organisations with less than 10 FTEs. While surplus as a percentage of total income improved for the sector as a whole, substantially for micro (1.59% to 6.93%), small (5.42% to 10.00%) and large (5.60% to 9.30%) professional bodies, it fell from 6.43% to 4.90% for medium sized ones. Staff costs as a percent of income rises slightly with size; from 37.9% for micro and 38.9% for small organisations to 41.4% for medium sized and 40.6% for large ones. This may reflect a lower proportion of volunteers at larger professional bodies.

Compiling these Reports requires substantial effort. First, they are not all to be found in the same place. Almost half (49.5%) of professional bodies are registered charities and their annual reports can be accessed from the Charity Commission, but Charities with income of less than £25k do not need to file their accounts with the Charity Commission. For the other half, the place one would expect to access annual reports, Companies House, does not have those constituted as Chartered. These, if they are not also charities, must be accessed from websites.

The second difficulty of producing benchmarking information is due to the lack of standardisation of annual report design. Some do not report on the number of members or FTEs. They report very different levels of detail on their sources of income. In addition, though most (53%) professional bodies report according to the calendar year, a substantial proportion report according to the tax year (19%) and many use the academic year, though this may end at the end of June (7%) or the end of September (6%). At least one annual report has as its reporting year in every month of the year.

There is of considerable interest in the Financial Benchmarking Reports among finance directors at professional bodies in the UK. Besides general benchmarking some use the information for specific purposes such as those that refer to these reports to set reserves targets or to justify their reserves policies to their governing bodies.

The 2015 PARN/haysmacintyre Financial Benchmarking Report is available from PARN at www.parnglobal.com. In addition, customised reports, to enable more focused benchmarking comparing sub-sections of UK professional bodies, are available at info@parnglobal.com.

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ARE YOU PREPARED FOR FRS 102?

From 1 January 2015, FRS 102 replaced all existing accounting standards for unlisted 'non-small' entities. The majority of membership organisations, excluding those that follow IFRS, will be required to comply with FRS 102 for their financial year ending 31 December 2015 (or 31 March 2016).

For many entities, this will result in significant changes to accounting policies which will need to be implemented by means of an opening balance restatement and prior period adjustment. Revised accounting policies will take effect from the date of transition, which is the first day of the comparative period, so the effect of the changes on the comparative amounts and opening balances will need to be considered and restated amounts included in the 2015 (2016) accounts.

In addition, membership organisations which are also charities will be required to comply with the revised Charities SORP for years ending 31 December 2015 or 31 March 2016.

So what does this mean for you?

It is important that you consider the transitional arrangements for adopting FRS 102 and consider those that are applicable and consider the implications of these changes together with calculating any adjustments. Do you have property? Do you hold investments? Do you have an agreed schedule of contributions to fund past deficits in a defined benefit pension scheme? These are just some of the questions you need to consider.

A guide to some of the transitional arrangements/treatments which may impact you:

REVALUATION OF FIXED ASSETS

On transition to FRS 102, fixed assets can be recognised at fair value as deemed cost; or revaluation as deemed cost. This will allow those of you who currently adopt a policy of revaluation to treat the latest value as rebased historic cost, or for those adopting historic cost to undertake a one-off valuation and use this as the deemed cost at the date of transition.

REVALUATION OF INVESTMENTS

FRS102 requires investments to be carried at fair value. For those of you that are charities there will be no change as the Charities SORP requires investments to be shown at market value. For those that currently hold investments at cost, these will need to revalued at the end of each financial year with the revaluation adjustment passing through your income statement.

DISCOUNTING

FRS 102 requires entities to recognise the time value of money in measuring all financial assets and liabilities which are due for settlement more than 12 months after the balance sheet date, where such discounting is material. The relevant discount rate to be applied will vary between different organisations depending on their particular circumstances, however it should be matched to a relevant measure such as the organisation's existing borrowing costs or returns on investments.

PENSION LIABILITY - MULTI EMPLOYER SCHEME

FRS 102 requires an entity that has entered into an agreement to reduce the historic deficit on a multi-employer pension scheme to recognise this commitment as a liability. If you have such a payment plan in place for a defined benefit pension scheme, the liability will need to be recognised at the present value of the future payments. It should be noted that this does not apply to contributions relating to current service or to multi-employer schemes where your share of the assets and liabilities can be determined by the scheme actuary directly.

HOLIDAY PAY ACCRUAL

FRS 102 requires short term employee benefits to be charged to the income statement as the employee service is received. This may result in the organisation recognising a liability for unpaid holiday pay at its year end date.

RENT FREE PERIOD FOR OPERATING LEASES

Under the previous UK GAAP, operating lease incentives, including rent-free periods and fit out contributions, were spread over the shorter of the lease period or to when the rent was revised to a fair market rent. FRS 102 now requires such incentives to be spread over the life of the lease period. Organisations can take an exemption for the leases that existed at the transition date and can continue to recognise these lease incentives on the same basis as previously. However, the FRS 102 accounting policy must be applied to any new operating leases entered since the transition date (1 January 2014 for 31 December 2015 year-ends and 1 April 2014 for 31 March 2016 year-ends).

TRANSITION TO FRS 102 - EXAMPLE DISCLOSURE NOTE

This is the first year the company has presented its results under FRS 102. The last financial statements under the UK GAAP were 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile to the net surplus/deficit for the financial years 31 December 2014 and the total reserves as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

	Note	1 January 2014 £'000	31 December 2014 £'000
Previously reported reserves		50,000	49,000
FRS 102 adjustments:			
Pension liability		(10,000)	(7,500)
Dilapidations		25	(20)
Holiday pay accrual		(200)	(250)
Rent free period - operating lease		(50)	(50)
Revaluation of fixed assets		100	-
Restated reserves		**39,875**	**41,180**

	Note	31 December 2014 £'000
Previously stated surplus for the period to 31 December 2014		3,000
Decrease in multi-employer defined benefit scheme		800
Decrease in dilapidations		10
Increase in holiday pay accrual		(35)
Rent free period - operating lease		(50)
Restated surplus for the period to 31 December 2014		**3,725**

The numbers in the tables above are for illustration purposes only.

There may be other transition adjustments for your organisation and the above is an example of how the transitions notes may be presented. Please do contact our team at haysmacintyre if you require assistance in your transition.

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LAY MEMBERS AND GOVERNANCE

A large number of membership and professional institutes have, as part of their governance structure, a series of sub-committees which appoint lay members to provide additional skills and expertise in a particular field to support the other members of the sub-committee, or to fill a skills gap.

The role of lay members is an interesting area from a governance perspective. There should be absolute clarity both within your governing document and any bye-laws or rules on the role and stature of such positions. The key is do not make any assumptions and you should double check the following:

1. Does your governing document allow for the appointment of lay members? If not, you may need to amend it.
2. Are there specific appointment provisions that need to be followed to legitimately appoint a lay member? If they are not followed, the appointment may be invalid.
3. Does the lay member have a vote? If not (which is normally the case), the minutes should make clear who voted on particular motions and identify the lay member as a non-voting member of the committee.
4. Is there a term for the lay members' period of office? We often see a lay member or co-optee appointed for one year. In order to properly understand the organisation should they not be in post for the same period of time as other trustees or Council members? It will take time for them to understand the organisation to contribute effectively.

We would recommend that the starting point, as ever, is to dust off the governing document and make no assumptions regarding your organisation's powers and appointment mechanisms, and ensure that minutes are always clear on who was present and eligible to vote.

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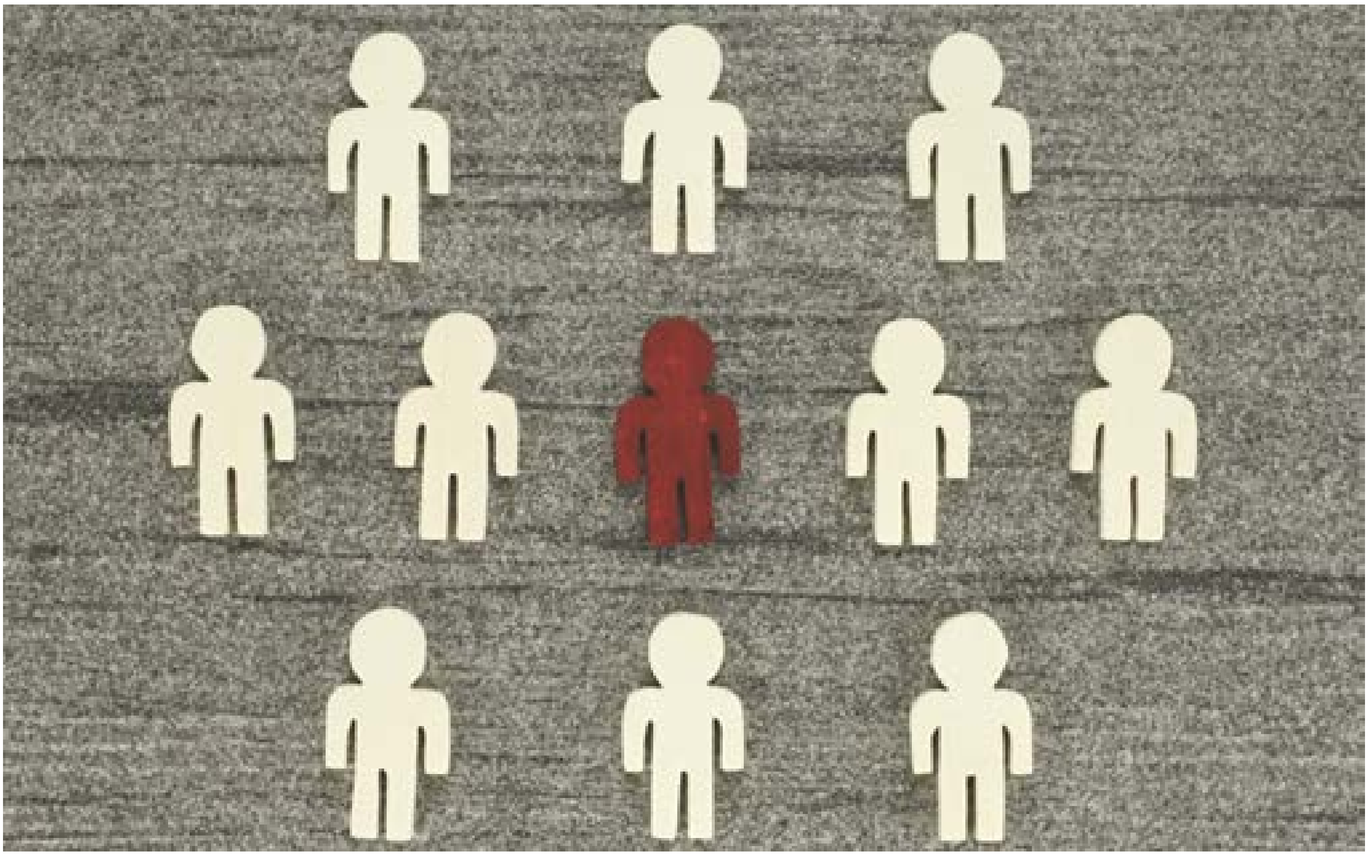

EXHIBITION CHARGES - A SHIFT IN POLICY FROM HMRC

It is common for many membership organisations such as learned societies to hold annual conferences for their members at which papers will be presented, and various topics discussed.

Often exhibitors will attend these conferences and hire a space to erect a stand and display their products. The received wisdom, until now, has been that if the conference organiser has granted the exhibitor a right to occupy a defined site in the conference venue that this was the grant of a licence to occupy land.

As such it would have been exempt from VAT, unless the conference organiser has made an option to tax over the land in question, in which case the supply was standard-rated.

Where no defined site was granted and an exhibitor simply turned up and could be moved to whatever site was available, this had traditionally always been regarded as a standard-rated supply.

THE CASE

The recent First-tier Tax Tribunal case of International Antiques and Collectors Fairs Limited indicates a shift in policy from HMRC that has been supported by the Courts. The Appellant Company organises antiques fairs at various sites around the country, such as Newbury racecourse, the Newark and Nottingham Showground, etc.

It hires these venues from the owners of the land and then lets out specific plots to exhibitors. The services provided are relatively basic comprising a marked out and numbered plot, in some cases an electrical power socket limited to 300W to be used for lighting and a trestle table, and in some cases also a marquee which is erected by the company.

In 2012, HMRC issued Revenue & Customs Brief 22/12 which was titled "The place of supply of services connected to land". This Brief contained the passage "Currently, HMRC regards the supply of specific stand space at an exhibition or conference as a supply of land. This policy will continue where the service is restricted to the mere supply of space without any accompanying services.".

This seemingly confirms what people believed the position to be. However, it went on to say that "where stand space is provided with accompanying services as a package, this package (stand and services) will no longer be seen as a supply of land with land related services……Accompanying services provided as part of a package includes such things as the design and erection of a temporary stand, security, power, telecommunications, hire of machinery or publicity material.".

OUTCOME

Drawing on this and other recent case law, HMRC argued that the Appellant Company did not simply let land and add value to it through the provision of the limited services it provided, but rather that the service was the provision of a fully organised and marketed antiques fair.

Although the Tribunal specifically commented that it did not believe that "any blame can attach to the Company or its officers or advisers" for not spotting that there might be a problem in continuing the previous policy following the release of the Revenue & Customs Brief 22/12 because of the title of the Brief, it nevertheless agreed with HMRC that the supply was not just the grant of an interest in land, and was, in fact, a taxable supply of services.

With many conferences, the services provided by the conference organiser will be even more limited than was the case here, because the conference venue will already be provided and there would be no need to erect marquees, but it is likely that electricity will be provided, and the logic of the decision seems to suggest that HMRC could argue that the conference organiser is supplying a fully organised exhibition, rather than just an interest in land.

TAKE ACTION

Whilst this is only a First-tier decision and not binding on other Tribunals, it is likely that HMRC will take it as a precedent, and there is therefore a risk that continuing to treat such lets as exempt could result in an assessment for VAT. We would therefore recommend that any membership organisation which lets space to exhibitors at its conferences reviews its treatment of the lets.

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MARKING YOUR MANAGER - KEY CRITERIA FOR ASSESING YOUR FUND MANAGER

Whether you are a charity or pension trustee, a financial advisor, or perhaps a private investor, there will probably come a time to feel the burden of responsibility to review both the investment performance of a portfolio, together with the service provided by your chosen investment manager. Whilst this might sound eminently straightforward, the practicalities of conducting what is bizarrely termed a 'beauty parade', can be somewhat more testing. It is undoubtedly a time-consuming and daunting exercise, but well worth the effort if the result is one of rich rewards and long-term stability with your chosen fund manager.

So, how should you ensure you have the 'best' fund manager, or expressed another way, assess whether your fund manager has been 'doing their best'? Indeed, how often should you review your manager and is there a right time? After a poor year's performance do you fire your fund manager on the spot, expel the unruly pupil, regardless of previous record? Probably not. One bad year isn't necessarily a disaster but it is nonetheless unsettling.

Most long-term portfolios have enjoyed some better few years recently; a welcome relief after 2011's returns, but a review after a couple of years is probably too short a term to appraise your manager properly.

No one likes to suffer losses and relative out performance of a falling fund brings little comfort; indeed as a guardian of charity funds, losing money feels particularly awkward. Even looking at a healthier portfolio today, managing money as we approach the end of 2015 will be no less demanding, with 'safer' assets such as cash and some government bonds still offering paltry returns. Unsurprisingly many of us have been forced into riskier assets to reap higher yields, but how much risk should we take? Should we be realising profits or holding our nerve in the most recent volatility? These are just a few of the debates which may sound familiar as we look forward to 2016.

With the right fund manager these questions will be debated regularly and the burden of responsibility should feel less overwhelming. So how then do we mark our fund manager? Most advisers suggest the appraisal of a number of attributes ranging from investment philosophy to the clarity of the fee structure. Like any sensible reviewer, I propose we study the report card, assess the evidence, not just for the most recent term but over a reasonable timeframe, to see whether your fund manager is meeting your expectations. Consider the following criteria, mark each category and see how they add up.

SUGGESTED MANAGER REVIEW CRITERIA:

Performance: 25%

Q: Did the portfolio produce the returns you expected or were they much worse (or better) than you anticipated? If the returns were behind the agreed benchmark, how did the portfolio fare relative to the peer group? Was the performance achieved by taking the appropriate (and agreed) level of risk?

Comment: It is tempting and pertinent to award the highest marks for achievement or 'outperformance', but performance must be measured with care and over a sensible timeframe. Most guidance suggests this to be a minimum review of once every 3 - 5 years. Given the volatility we have witnessed during the course of the financial crisis it might be wise to consider a longer assessment period. In the case of underperformance, you must be clear of the cause, be assured that any issues have been dealt with and importantly, won't recur.

As most readers are aware, there are even league tables for fund managers, often viewed with as much scepticism as schools' GCSE results. You might find that your fund manager doesn't feature in a particular survey at all, this in itself should raise alarm bells. It is not unusual to find that the worst performing fund manager one year enjoys the best performance the following year, so probably advisable not to change managers after a short bout of poor health. Performance is, of course, important but it is only one of the boxes to tick.

Income: 10%

Q: How much income did the portfolio generate? Too much or too little, or was it exactly the amount you had asked for at the start of the year?

Comment: Generating an agreed level of income from a portfolio is often a fundamental part of the manager's role. Achieving the correct balance between income received today as well as allowing for future capital and income growth is arguably a manager's most challenging task. The dire combination of dividend cuts, depleted bond yields and dwindling interest rates come all too often hard on the heels of times of need. To disappoint at such a time is a failing on the part of your manager and should be marked harshly. To lose capital value (although you may not have actually realised a loss) is unfortunate, but to miss an income target is careless and causes disappointment.

Conversely a portfolio might produce excessive income, possibly at the expense of capital growth or subject to a higher tax band: not quite such a black mark but still an unwanted surprise. In short, you should rely on your manager to provide a steady income stream, or at least, to communicate early if circumstances change.

Implementation of policy: 10%

Q: Are you happy that your manager is investing the portfolio in accordance with the agreed strategy? Is the investment objective still appropriate or does it need updating? Should you consider another investment approach to complement your existing strategy? Absolute, relative or target return? Alternative assets, currency hedging, dampened volatility, socially responsible investment...have you considered all of these?!

Comment: The jargon can be overwhelming for any investor and every year it seems another, 'better' way to achieve the perfect portfolio emerges. Whilst one should not dismiss new investments or alternative strategies straight off, it is probably best to start with a review of your own circumstances to see whether it is still applicable. If you are a trustee, look at a copy of the most recent policy statement. Make sure that your manager is investing as agreed, then discuss any changes you are considering and if necessary, ask them to write a strategy paper assessing your overall investments and requirements.

A good manager will pre-empt any matter that needs addressing. The current investment climate will continue to bring all number of challenges to which clients and managers alike will need to adapt. Consistency is also imperative; try not to change your strategy too often as this can lead to the wrong decisions being taken.

Stable organisation and team: 10%

Q: Is your manager part of a well-established organisation? Is the team stable? Does the company attach sufficient emphasis to private clients, pension funds or charities?

Comment: An on-going, strong reputation for any financial company is clearly key. It is important however to ensure that the answers you sought and received when you first appointed your manager remain valid. A change of ownership is not necessarily a negative but it might mean that senior management's eye is taken off the ball for a time. An unhappy ship is made obvious by an unusual increase in the turnover of staff and this can quickly upset the balance within a team.

Politics are prevalent in any firm, but if you do your research, you will be over half-way to finding out what is really going on behind the scenes. Make sure your manager is concentrating on your portfolio and not on his/her exit strategy.

Communication and administration: 15%

Q: How efficient is your manager and do you get on with them? Do you receive regular, clear reports and are they explained to you properly? Could your manager be concealing a poor investment? Are they burying that all important figure?

Comment: First-class administration should be an easy win but it is surprising how often a failure in this department is the tipping point for losing a client. There is nothing more irritating than having to chase that all important report. Forming a close relationship with clients is possibly one of the fund manager's most critical roles. It is a case of clear communication, confidence, and trust. A strong rapport is essential and I don't mean that you should be wined and dined by your manager every week (the Bribery Act has put a stop to all of that). Rather, you should feel that your questions will always be answered promptly and with the clarity they deserve.

During your meetings, ensure that the you are able to interpret the reports accurately and with ease. If you cannot understand something, chances are you are not the only one.

Costs: 10%

Q: And while we are on the subject of transparency, what about the fees you are paying? Are they competitive and what is the true picture?

Comment: There is nothing more frustrating than clients who believe they are paying much less for a service than they are in reality. Whilst we are all under pressure to reduce our fees there aren't many industries where there is still such a lack of transparency over the true annual cost of running a portfolio.

Even a recent survey of charity managers' fees resulted in a fictional report as a number of managers had not answered the questions correctly; not an encouraging outcome. Yet it is very simple: any fund manager should be able to provide you with a summary of the total costs you have incurred. This includes all charges that are added to the quoted annual management fee such as broker commissions, administration, third party fund fees and VAT. Heaven forbid they ban the calculator in our business!

Corporate governance: 10%

Q: Are strong stewardship principles embedded in your fund manager's investment philosophy and process? Does your manager engage regularly with company management and vote on your behalf? If they do, is there enough focus on how governance factors affect shareholder returns? Can your manager accurately meet the requirements of any ethical restrictions you have requested?

Comment: The 'shareholder spring' of 2012 certainly raised awareness of such issues, but in reality, the results remain disappointing. The number of managers who truly vote independently on behalf of their clients is still surprisingly low with only a small improvement in voting patterns. Whilst some of the key issues have dominated the headlines, shareholders continue to suffer the fallout from record pay packages, poor internal controls and general mismanagement of shareholders' funds. Ask your manager for their voting record, ensure they are keeping up to date with industry practice and if you have ethical restrictions embedded in your investment portfolio, monitor and debate these issues regularly.

Value added for charities: 10%

Q: So, what is it that really makes the difference to our clients? What helps them conclude, even in challenging times, that their managers are in fact doing their best under difficult circumstances?

Comment: The answer lies somewhere in a much over-used expression, which is the 'value added' that a fund manager provides. If you are a private client, how much of the business is dedicated to wealth management and what additional services are on offer. As a charity trustee, how much presence does the firm have in the wider charity sector? A credible manager dedicates a significant part of its business to charities, offers regular charity seminars and trustee training. Many investment managers write topical papers dedicated to issues that are facing clients: how ethical should your portfolio be? What is an acceptable and manageable level of income? How much risk should you take? How globally can you invest? All of these are valid questions and must be addressed and debated regularly if your manager is to attain the highest marks.

CONCLUSION

You are doing well if your manager scores 100% in the above test, but even a consistently high mark in each category with a 70-80% result and they deserve to be in the top set for another year.

It feels as though 2015, the worst of the global financial crisis is behind us, with economic recovery generally more stable. Five years should be a reasonable timeframe to invest (and to make) money from real assets such as equities and property, yet many of us, clients and fund managers alike, will have doubts about the future ahead as we evaluate our funds. Take comfort then from the last five or ten report cards and consider the above criteria as part of your review process.

Or perhaps I have just made a difficult subject more complicated and you pose one simple question to yourself: 'Are you sleeping at night?' If the answer is positive, then your managers are probably doing their best for you.

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KEY UPDATES IN CHARITY REPORTING AND REGULATION

THE ESSENTIAL TRUSTEE: SUMMARY OF THE REVISED GUIDANCE

The Charity Commission recently updated its essential guidance - *CC3 The Essential Trustee: What you need to know, What you need to do.*

The expectation is that all trustees will have read this guidance. It is clear from the consultation that trustees are now more aware of the need for them to be cognisant of their roles and responsibilities within charities. Out of 76 respondents who were asked during the consultation if they had read CC3 (the previous version issued in March 2012), 64 had read it recently, 7 read it a few years ago and 5 have never read it.

WHAT IS THIS DOCUMENT?

The Essential Trustee is a detailed document for trustees in England and Wales, which outlines the key duties that all trustees must carry out, as well as the tools and skills needed to perform effectively as a trustee.

The new guidance is more precise and easier to read and understand. It has expanded the core duties of trustees compared to the previous version and placed greater emphasis on these duties and the role the governing document has on effectively governing your charity. The message is, do not assume that you have the requisite powers to do things and always double check your governing document.

The guidance helpfully differentiates between what is good practice and what is a legal requirement, and introduces a new section on understanding and preventing personal liability for trustees. Words and phrases that were misinterpreted have also been rewritten.

'Must' is used when there is a legal or regulatory requirement and 'Should' where there is a suggestion advising trustees this is good practice, in common with other recent Charity Commission releases. The clarification in language is to help prevent charities from breaking the law or breaching their legal duties and also to help charities understand and implement best practice.

All trustees are advised to make themselves aware of this guidance to assist them in their roles as trustees, or to confirm what they already knew as a useful reminder.

The full guidance can be found at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/451020/CC3.pdf

If there are any areas of the guidance you wish to discuss, please contact Varsha Patel or your usual haysmacintyre contact.

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CHARITY COMMISSION SETS OUT PLANS FOR THE ANNUAL RETURN 2016

The Charity Commission has confirmed that the 2016 annual return will be amended to reflect the financial information required of large charities in the new Charity SORP, but says that the content will remain broadly similar to that required for 2015.

The Commission has also confirmed that, following the consultation in 2014, there will be no question in the annual return about charity expenditure on campaigning.

The new annual return is undergoing user testing in early 2016 and is expected to be released shortly afterwards.

https://www.gov.uk/government/news/charity-commission-sets-out-plans-for-the-annual-return-2016

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LESSONS TO LEARN FROM RECENT CHARITY COMMISSION INQUIRIES

The Charity Commission has so far issued 20 inquiry reports since 1 April this year. The vast majority of these reports, 17, were a direct result of their clamp down on investigating charities that had not filed their accounts on time for two out of the last five years.

The enquiry reports are often high level and do not give a huge amount of detailed information, but what they do show are two very clear messages:

1. Trustees need to understand their duties in complying with the legislative framework to file accounts; and
2. Trustees need to ensure that the financial information that they receive and act on is adequate, and in a form that they understand and is relevant for them to make appropriate decisions for the benefit of the charity beneficiaries.

The first of these findings is not new to the sector.

The Essential Trustee guide, CC3, has been available from the Commission website for many years, and in the light of their recent inquiries, they have updated this publication in September. There is a separate article in this briefing on the key focus areas of the updated guidance. All trustees are advised to read, if not the whole publication, at the very least the summary, in order to avail themselves of what is expected of them.

The second of these findings is of greater concern, not just to the Commission, but to the sector as a whole. The Commission set a parameter of charities with income of between £250 - £500,000 of income in setting its criteria for inquiries. Up until March 2015, this was the income range where charities, on the whole, did not require a full audit, but an independent examination, so the rigour of annual audit and the more formalised process of engaging auditors was not present.

This is a grouping that, when combined, raises and manages a significant value of charitable income and assets. The individual findings raise a point that we often see and lecture on in our Trustee Training series, what information should be prepared and reviewed by trustees on a periodic basis?

Set out is a list of information that we would expect all charity trustees to receive on a regular, and at least quarterly, basis in order to effectively manage and make decisions within the charities that they are custodians off.

INFORMATION THAT TRUSTEES SHOULD RECEIVE:

- **Income and expenditure (by entity if you are a group)**
  Each entity should have a separate income and expenditure account and a consolidation page if in a group.
- **Outturn for the year**
  Projecting the year to date actuals with estimated results to the year-end date helps to analyse and compare to the annual budget and ensure that you have the financial resources to meet your targets.
- **Balance sheet information**
  The one piece of information which is commonly missing from the pack. Without a balance sheet you are unable to verify whether the income and expenditure is in balance. You should have sufficient sight of balance sheet numbers and in particular the breakdown and recovery of debtors, confirmation that the bank accounts have been reconciled and clarity over the completeness of all creditors and accruals at that date.
- **Funds analysis – restricted v unrestricted**
  All of the above information should be available and analysed by fund. It is crucial that you have absolute clarity over the type of fund and the amount of funds available.
- **Cash flow**
  A cash-flow forecast will prove that you do (or do not) have sufficient financial headroom to continue to operate in the way intended. The cash-flow should link and reconcile to the bank balances and income and outturn papers.
- **Prior year comparisons**
  Useful where income streams such as membership are consistent but more 'informative' where income streams are less predictable or the types and regularity of funding is less consistent.
- **Commentary/explanations**
  Understand who is providing the commentary. Where you have budget holders, they should provide the analysis into the Finance Team. It is now also common practice for many audit committees to have department heads and/or budget holders present on a cyclical basis to the trustees. This can help with engagement, but also assists trustees in their understanding of the financial risks faced by the operations of the charity.
- **Key indicators/benchmarks**
  Useful where there are key elements to your operations, such as target investment returns, membership retention, turnover of staffing, conference attendance, level of grant applications and value. The list could be endless depending on the type of charity and what it does. But as a snap shot these KPIs are often more useful than the detailed financial information for the non-financial trustees.

The above list is not exhaustive, and there may be other key reports that are helpful to your charity, but the above should be provided as a bare minimum.

We are often invited to comment on the quality and content of board papers, and it is perhaps an interesting point to review in the light of recent reports. For now though, if you are a trustee, ensure you have a copy of The Essential Trustee and receive the information you need in order to effectively operate financial governance.

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Future events

Annual Seminar for Club Secretaries	27 November 2015
Identifying and managing risks in a charity	2 December 2016
Charity law update	12 January 2016
PARN Special Interest Group*	10 February 2016
What every trustee should know	3 March 2016
What every trustee should know - Refresher	23 March 2016
Introduction to charity finance and reporting	19 April 2016
Network of Women Chairs	Multiple dates available on our website

*haysmacintyre will be speaking at this event

For further information on these events please visit www.haysmacintyre.com/events or contact our Events team on 020 7969 5500, events@haysmacintyre.com

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