



**CHARITY COMMISSION**  
FOR ENGLAND AND WALES

# CFG Annual Conference- View from the Charity Commission on financial sustainability, financial governance and the importance of transparency

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## Overview:

- Idea of this session is to give: assurance, confidence, and encourage openness in handling financial challenges
- For practical solutions- check in with CFG network, your auditor, sector partners or contacts
- Will cover five key aspects:
  - Assurance- emerging financial trends (based on our annual return data) and stress testing
  - Confidence- financial health check (referencing our guidance)
  - Reserves and managing risks including pensions (referencing CC19)
  - Decision-making in difficult situations (referencing our guidance)
  - Openness- transparency in reporting- statutory report and accounts and serious incident reporting by trustees

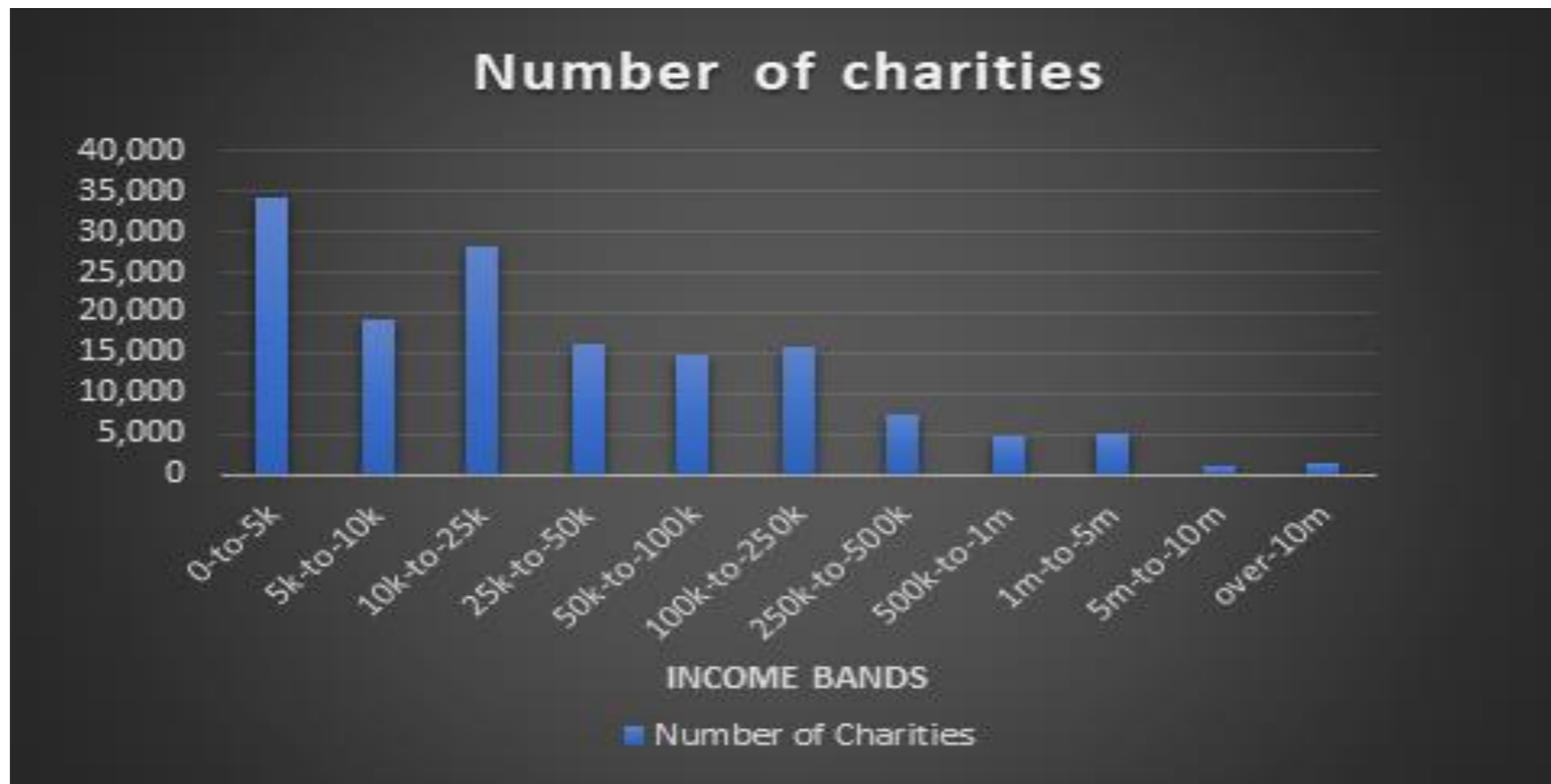


## Assurance- empathy:

- Charities- income over £500,000 must submit detailed financial information as part of the Annual Return
- The AR data enables a degree of empathy by the regulator and users of our register:
  - We understand the register by size of charity- smaller charities tend to wholly volunteer run and operated, local and community based
  - Most of the sector income and funds are held by larger charities who employ staff, operate at scale and have greater geographical areas of operation
  - The sources of income of the sector as a whole and of each charity has been differentially impacted by the pandemic
  - The move to digital as method or platform for fundraising and operational work has had a differential impact
- Your data informs our understanding- it tells your story

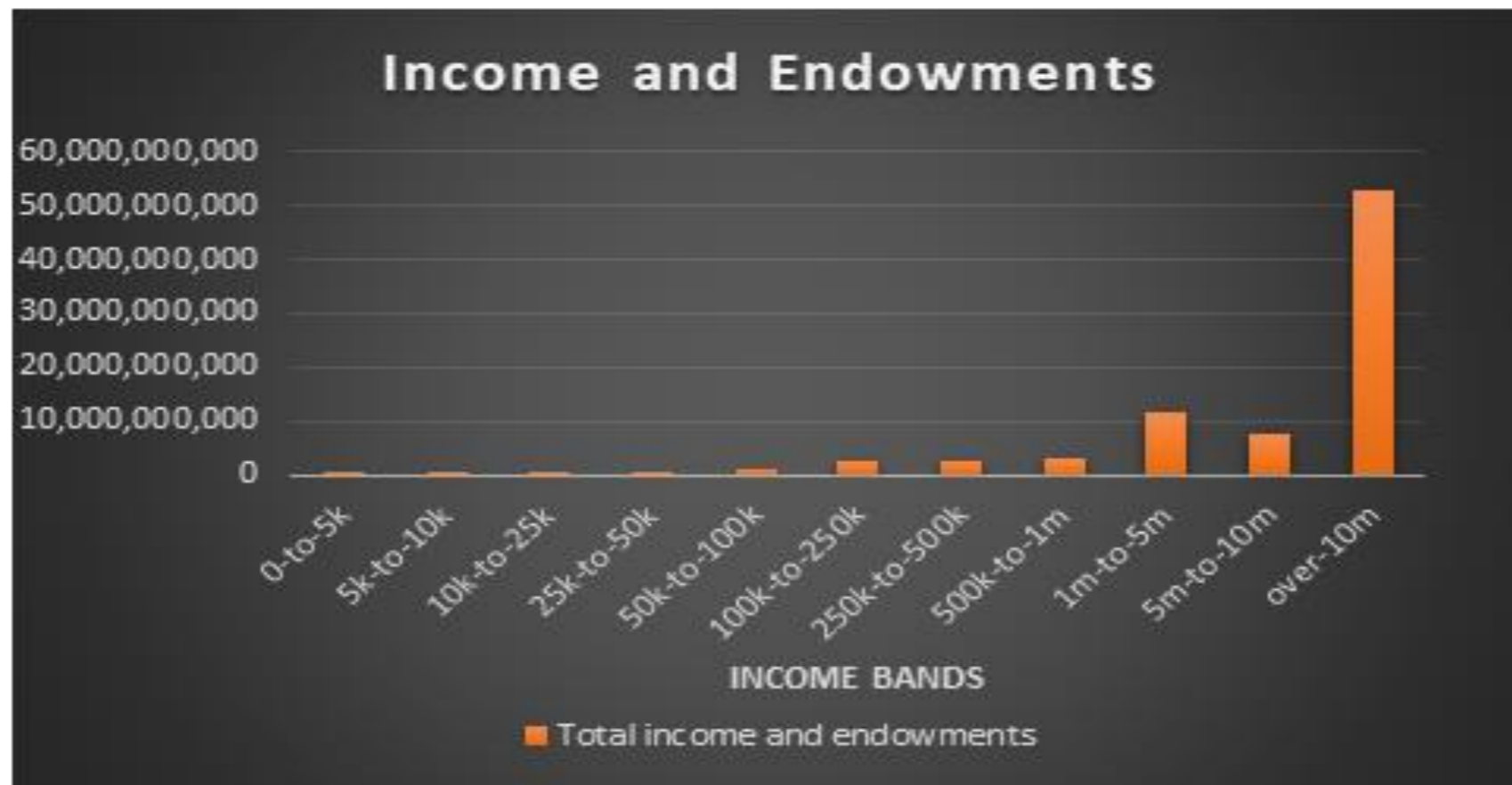


## Sector overview- number by income band (Sept 2020):



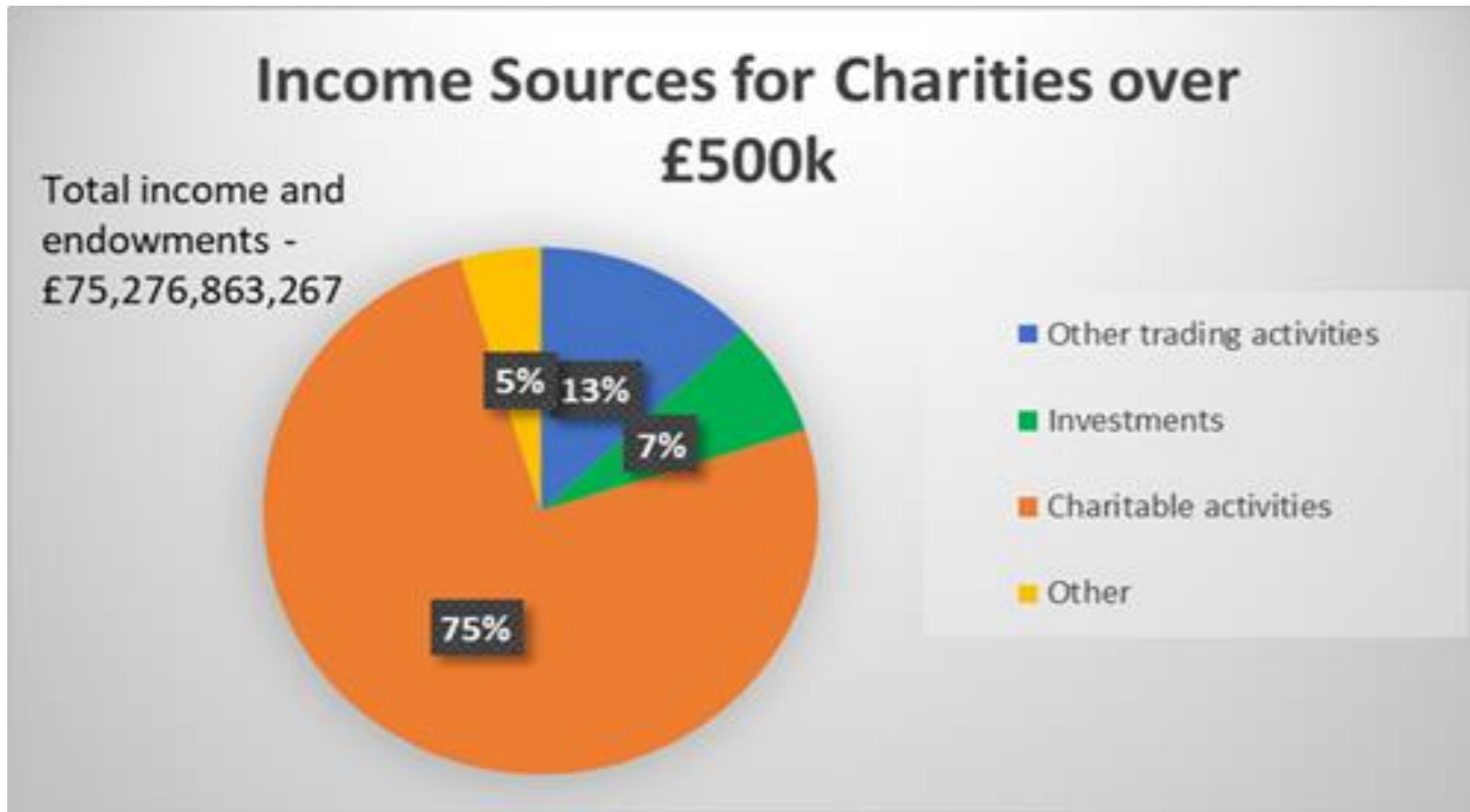


## Sector overview- income concentration by size of charity (Sept 2020):





## Sector overview-composition of income (filings to Sept 2020):



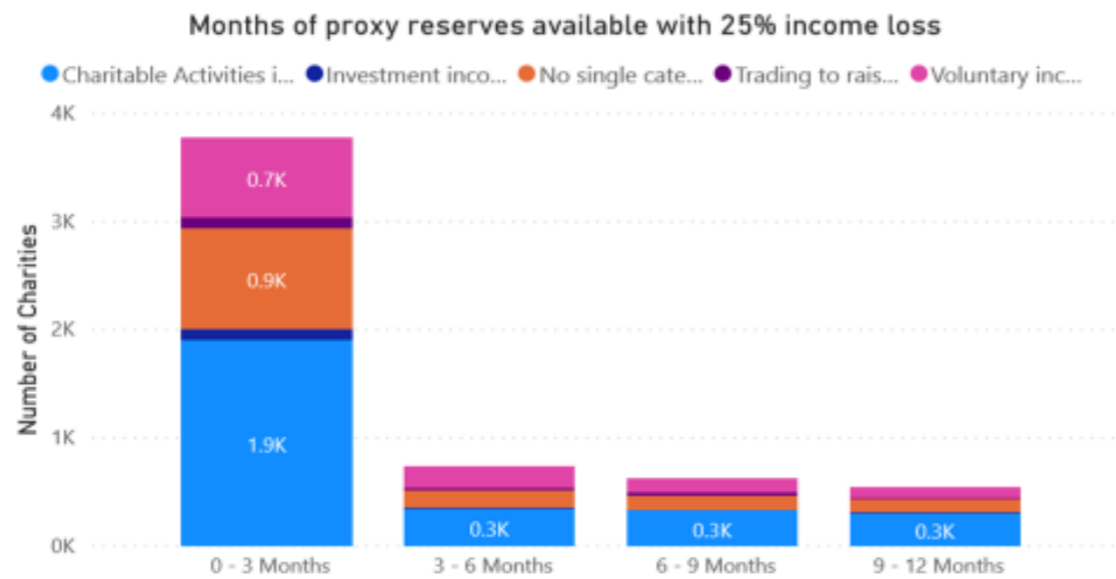


One approach to gain assurance is stress testing:

- The practice- best known in the banking industry post the financial crisis of 2008 as a method of testing financial resilience
- Using your data we are looking at emerging trends in sector financial resilience informed by:
  - Levels of unrestricted funds held (after allowing for property assets)
  - Modified audit opinions- uncertainties as to going concern (MoMS)
  - Defined benefit pension liabilities
  - Scenarios (such as the two that follow)
- How is your scenario planning in respect of costs, income, and liabilities coming along as a tool for decision-making?
- It is still early days for us but we are developing our thinking



# Stress testing- fall in income- costs unchanged:



Total Employee numbers by Months of proxy reserves available filtered by charity category (25% income loss)

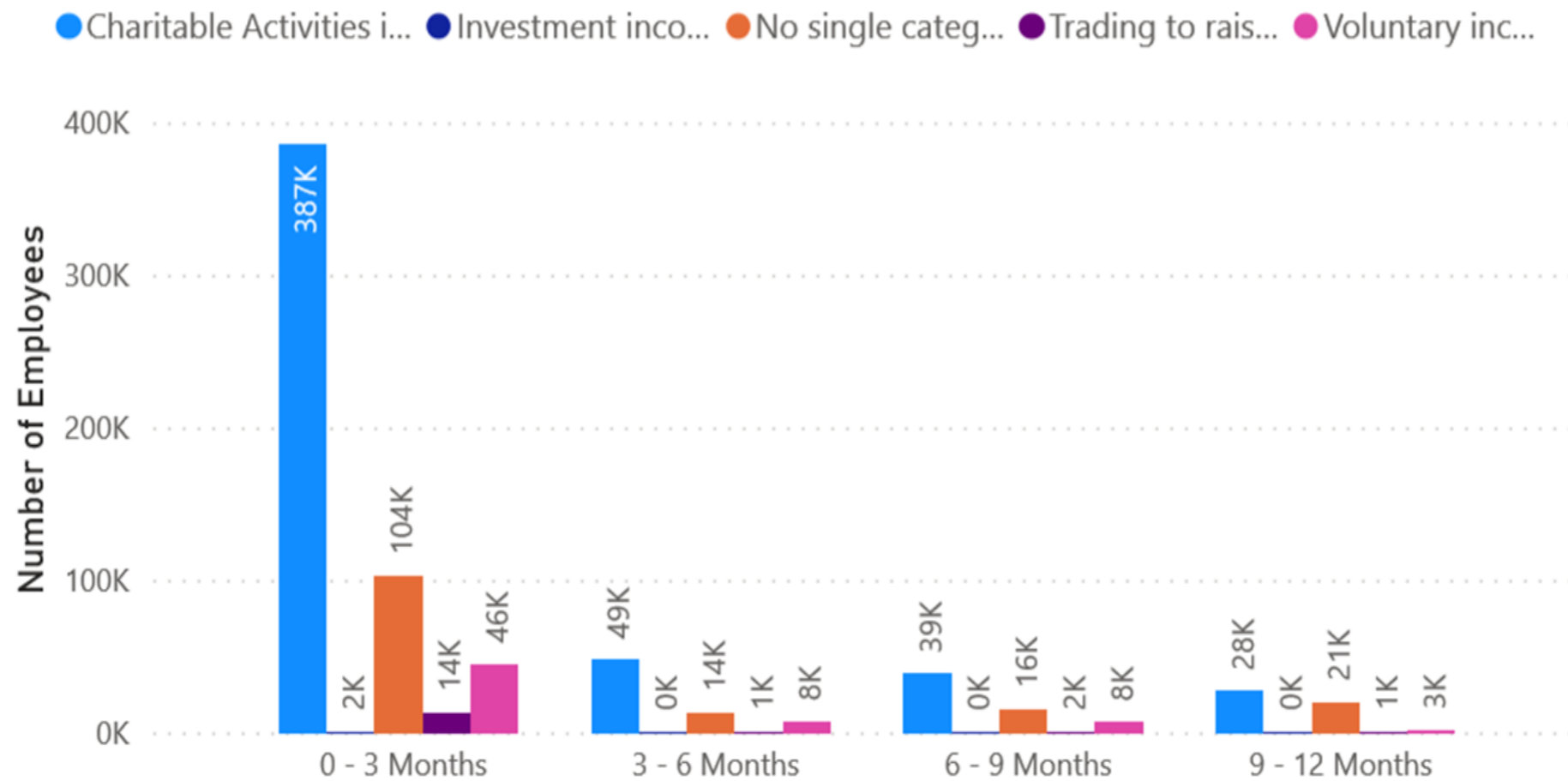






## Stress testing- fall in income and exposure to staff related costs:

Total Employee numbers by Months of proxy reserves available filtered by charity category (25% income loss)





## Confidence - financial health check(s):

- Our guidance is intended as an easy to follow approach- accepted larger/ complex charities will be more sophisticated: <https://www.gov.uk/guidance/manage-financial-difficulties-in-your-charity-caused-by-coronavirus>
- 3 steps:
  - Step 1- consider your current financial situation- cash and cash-flow
  - Step 2- options for minimising costs and protecting and increasing income
  - Step 3- Keep the charity's operations and finances under regular review and take any additional actions
  - (Give yourself permission to make the difficult decisions)



## Confidence- reserves and managing risk:

- Our guidance- last reviewed following the disorderly collapse of Kids Company (CC19):  
<https://www.gov.uk/government/publications/charities-and-reserves-cc19>
- Our risk guidance (CC26):  
<https://www.gov.uk/government/publications/charities-and-risk-management-cc26>
- Thinking about reserves and risk- findings from our reviews of charity reports and accounts are:  
<https://www.gov.uk/government/collections/accounts-monitoring-charity-commission>
  - Reserves are not calculated correctly- Less than a quarter of charities stated the correct reserves figure
  - Only a third of charities (incomes over £500,000) provided the required information about their reserves policies in their trustees' annual reports



## Confidence- reserves and managing risk:

- Thinking about reserves and risk:
  - Calculate the reserves in year and at year end- ongoing monitoring
  - Consider timing of liabilities including pension obligations
  - Consider liabilities that crystallise with decisions made- premises, staffing, contract non- fulfilment
  - Consider third party risk- tenants, contractors, debtors
  - Link to your scenario planning and going concern assessments
- Try the OSCR reserves calculator:  
[https://www.oscr.org.uk/media/2681/v10-charity-reserves-factsheet\\_pdf.pdf](https://www.oscr.org.uk/media/2681/v10-charity-reserves-factsheet_pdf.pdf)



## Confidence- decision-making in difficult situations:

- Not about perfect foresight and perfect knowledge or being risk free
- Our guidance (CC27):  
<https://www.gov.uk/government/publications/its-your-decision-charity-trustees-and-decision-making>
- Consider the seven principles to be confident that your decision is within the range of decisions that a reasonable trustee body could make
- Retain the evidence of following our guidance:
  - to address challenge
  - to inform future decision-making
  - to help the trustees to show that they have acted properly and help to protect trustees if something goes wrong



## Openness- looking to the future- transparency in reporting:

- In respect of registered charities we publish reports and accounts for those income over £25,000 and we now get 26,000 to 30,000 downloads a week on average
- A choice- ceasing an opportunity or an exercise in compliance?
- The report and accounts are your opportunity to tell your story and explain the difference you make
- Refer to advice of SORP-making body on explaining the impact in your trustees' annual report:  
<https://charitycorp.org/media/648486/sorp-covid-19.pdf>
- For accounting solutions: <https://charitycorp.org/about-the-sorp/covid-19/>
- If you won't tell your story then who will?



## Openness- serious incident reporting

You should report a ‘serious incident’ to us when your assessment reveals that either:

- the scale of financial loss threatens the charity’s ability to operate and serve its beneficiaries, or
- the charity’s financial reserves or other measures are not sufficient to cover the losses

Use the serious incident form to report this information and the actions you are taking:

<https://ccforms.charitycommission.gov.uk/report-a-serious-incident>

- We assess serious incident reports for various purposes, including whether to engage with your charity to ensure that the right actions are being taken.



## Financial help with the impact of COVID-19:

- Charities Aid Foundation (amongst others) has a page devoted to sources of financial help: [https://www.cafonline.org/covid-19-support?gclid=EAIaIQobChMIh63bjlKb7QIVArbtCh33sg89EAYASAAEgKjhPD\\_BwE](https://www.cafonline.org/covid-19-support?gclid=EAIaIQobChMIh63bjlKb7QIVArbtCh33sg89EAYASAAEgKjhPD_BwE)



[www.gov.uk/charity-commission](http://www.gov.uk/charity-commission)



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