CFG INSPIRING FINANCIAL LEADERSHIP

FINANCE FOCUS

The magazine for CFG members

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ADAPTING TO UNCERTAIN TIMES

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Finding a path forward

It's been a rollercoaster couple of months, and there's been much talk of a 'new normal'.

We're all making sense of a shifting landscape and what temporary and permanent changes are taking shape in our professional and personal worlds. Finance professionals are performing a juggling act, operating with competing needs in their unique organisations, acutely aware of the dual importance of the short and long-term consequences of decisions.

Translating the impact of COVID-19 on the sector is a vital issue for CFG. For some charities the damage has been irrevocable; halted fundraising, service reduction and trading limitations are prevalent issues. The unifying outcome is the effect on the beneficiaries our members serve.

In the 'Big Issue' this month, CFG Director of Policy and Communications Roberta Fusco explores the allocation of government funds across the sector and their accessibility (pages 3 and 5), and outlines the next stage of policy asks by CFG as well as the findings of our 'temperature check' survey (p.3). Please do complete the next edition of our joint survey with the Institute of Fundraising, NCVO and PWC so that we can gather the best evidence to inform our asks.

Strong governance is as vital as ever for charities – something which is underpinned by individuality, skills and experience. Which is why CFG Trustee John Tranter shares his advice on how he's approaching this difficult period in our cover story this month, joined by Sayer Vincent's Fleur Holden who offers seven tips for trustees in a fast-changing situation (page 4).

Caron Bradshaw takes a look at the key themes and ways of working she is seeing emerging across the sector on page 5 – including mergers as an area of consideration. M&A specialist Sarah Priester outlines what to consider if you're undertaking a merger on page 7.

There's some technical developments for you as Richard Bray gives his updates on tax (p.8) and David Davison looks at how COVID-19 is affecting pensions on page 6. Make sure you're up to date with CFG's online events programme, kicking off with our first virtual VAT, Tax and Gift Aid Conference this June.

Finally, Rachel Piggott of Brightside and Christine Scott from ICAS share their experiences of effective impact reporting on page 9.

Enjoy this month's issue, and we hope you find some fresh inspiration here to help you manage with new insight for your beneficiaries.

Abby Warren, Marketing Coordinator, Charity Finance Group

The Pink Book 2020

You should now have your online annual handbook The Pink Book 2020 sitting in your inbox! The Pink Book brings together the big picture for the sector in 2020, with sector leaders sharing their thoughts and insights across the most important issues of the year.

If you've not yet received your digital copy email **abby.warren@cfg.org.uk**.

CFG Coronavirus guide

In response to the COVID-19 pandemic, we've been working hard to build a hub of resources for the sector. We give a breakdown of our campaign work, translate what measures mean for us, and signpost to expert resources as well as valuable content on health and wellbeing during the crisis. Access the CFG Coronavirus guide at **www.cfg.org.uk/coronavirus_guide**

Have your say on your membership

Our members are at the heart of CFG and your feedback is important so we can continue to develop and improve what we do. So we have created a feedback box for you; drop in your suggestions, insights and ideas about any area of your membership – we would love to hear from you. **www.surveymonkey.co.uk/r/CFGfeedbackbox**

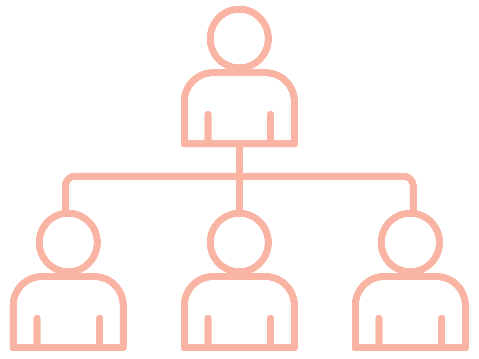
#NeverMoreNeeded Campaign – get involved

If you are on social media and follow us on Twitter, you will have seen that there is a new campaign to get behind, following on from the success of #Everyday Counts. #NeverMoreNeeded is a joint effort from infrastructure organisations and asks everyone in the sector to share the stories of charities' invaluable work and the difference they make to people's lives.

The campaign was launched just in time for the BBC Big Night In, The 2.6 Challenge and #GivingTuesdayNow to raise the public profile of the invaluable work charities do and why, if they can, the public must continue to support it. In just two days, the hashtag had received over 12 million impressions and there were over 2,500 tweets so we know the message is getting out there!

To take part, you just need to tell your story and why your organisation and charities are **#NeverMoreNeeded**, or use the hashtag in your existing social comms. Visit **www.cfg.org.uk/NeverMoreNeeded** to download the image.

Charity IT Leaders appoints first CEO



Charity IT Leaders have appointed their first ever CEO. Tree Hall will be building on achievements as the organisation's Business Manager, and took on the new position on 1 May. As the organisation enters its 20th year, she will focus on developing the membership programme and reaching out to a wider range of not-for-profit organisations. Laura Dawson, Charity IT Leaders' trustee, explained why they've chosen to appoint: "Having a CEO will enable us to deliver a significant step-change in delivering continued growth and supporting more organisations to unlock the potential of digital and IT." Find out more at **www.charityitleaders.org.uk**

Welcome to our new members

- International House Trust Limited
- Christ Church London
- The Chartered Institute of Building
- TEDI-London
- East Midlands Immediate Care Scheme
- PHG Foundation
- Young Epilepsy
- Social Investment Business Foundation

Would you like to write us a testimonial?

Are you enjoying being a CFG member? We would love to hear from you on any aspect of your membership experience, whether it's a more in-depth look at how something we do has supported you or your organisation, or just a quick line or two you'd like to share. Your testimonial is valued and helps us to raise awareness of what we do to the wider sector, enabling us to help and connect with more charity finance teams who are working hard to support their beneficiaries. Contact **abby.warren@cfg.org.uk**

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What's the big issue?

Our next asks of government to support the sector through COVID-19

As recounted in last month's edition of *Finance Focus*, we were over that moon that after five solid weeks of joined-up campaigning by the sector, the Chancellor finally announced a £750m relief fund on 8 March; £370m is to be distributed through the National Lottery Community Fund and £360m through government departments.

The £360m to be distributed through government departments includes £200m for hospices, £76m for victims of domestic abuse and trafficking, £10m for charities working to combat Violence against Women and Girls (VAWG) and £16m for food charities, leaving around £60m yet to be announced, more than two months on. Many bidding processes haven't opened yet, let alone allocated. The point of whether this is 'emergency funding' is a moot one. The clock is ticking and the emergency goes on. Together with NCVO and the IoF we have just launched a second iteration of our joint survey and the evidence collected here will form the evidence base for us to continue to press government for more support for our sector to support our beneficiaries. Please do complete this as soon as you are able to and by the deadline of 25 May.

This is an unprecedented injection of cash into the sector and represents a win for the campaigning efforts of civil society organisations. However, the £750 million announced by government does not reflect the lost income, nor provide sufficient support to enable charities to continue their vital support to people through coronavirus and beyond. We know that some parts of the sector will not benefit from any of the government relief fund, or public fundraising initiatives being run. We also know many parts of the sector have not been able to utilise the job retention scheme due to needing to mobilise to meet additional need and that loan finance will not be suitable to all, despite the lift of restrictions on trading for charities. In summary, we know the job is not yet done and this represents the first step in a long journey to a new landscape.

There is good news in that the DCMS Select Committee, in their report of their Inquiry into the impact of COVID-19 on the charity sector published last week, agree and echoed our asks of government to:

- Recognise that existing measures are not enough to enable charities to continue to deliver essential services that have never been more needed. Government must address the medium and long-term scale of the financial challenge ahead, and to ensure that the critical support civil society provides will continue to be able to meet need both in time of crisis and beyond.
- Ensure the distribution of funding available is speedy and efficient, and that equality and human rights are designed in from the outset, so that we meet everyone's needs, and that decision-making is transparent.
- Make necessary regulatory changes to existing schemes to make them fit for purpose for civil society organisations.

We're pleased that the DCMS Select Committee have listened to the sector but if there is to be one criticism, it is that the report continued to emphasise small charities when we know that charities of all sizes are impacted and essential to delivering support to the nation both in crisis and beyond. The charity sector is an ecosystem built on a multiplicity of business models and income streams and size is not a useful determining factor in predicting financial sustainability.

On 11 May, the government published it's "Plan to Rebuild", following a frankly confusing Prime Minister's televised address, which sets out with a little more clarity the overarching drivers for coming out of lockdown. CFG and our fellow infrastructure bodies are working hard to ensure that government guidance specifically addresses our concerns for staff and beneficiaries and reflects the variety of work settings and functions that our sector encompasses. The Chartered Institute of Fundraising is focusing on issuing guidance with the Fundraising Regulator on the safe return of fundraising activity and the Charity Retail Association have issued detailed guidance on re-opening. However, the context in which this guidance is framed is one of economic necessity and in making reference to the support measures introduced, the guidance states; "these measures are extraordinarily costly and cannot be sustained for a prolonged period of time… So as the UK adjusts the current restrictions, the government will also need to wind down the economic support measures while people are eased back to work".

That's what CFG will be concentrating on in the next days and weeks, as set out in the article below on the changes needed to the government's support measures. The Coronavirus Job Retention Scheme is our main focus, building on the recommendations echoed by the DCMS Select Committee to create a charity specific scheme that recognises the fundamental difference of not for profit business models. The Chancellor is due to make a statement later today (12 May 2020) on the winding down of the scheme, so time is of the essence. The government have also issued guidance on safe return to work which is based around five key points of working from home if you can; workplaces carrying out risk assessments; maintaining 2m social distancing; managing transmission risk and enhanced cleaning processes. The variety of work setting and environments that charities operate in will make this at best a complicated and potentially costly task. Of paramount importance is the health, safety and wellbeing of our staff and beneficiaries. Trustees will be particularly concerned with balancing this against 'getting back to work'.

CFG's policy and influencing activities will continue to be dedicated on the response to the crisis prompted by coronavirus and the securing of financial support for the sector so that we can continue to deliver for our beneficiaries. Our continued collaboration on research and data collection and interpretation will help to inform the scale of financial challenge in the medium to long term and our briefing to parliamentarians and officials, will keep government informed.

We are clear that the future landscape has changed considerably and that we must be part of shaping what role civil society plays in a post COVID world. As Andy Haldane, Chief Economist of the Bank of England wrote in the Financial Times: "We need to invest the rich endowment of social capital created by the crisis, by rethinking and rebuilding the institutional immune system that is our social sector". Thank you for supporting CFG in our efforts to support you.

Results of CFG Temperature Check survey

We ran a 'Temperature Check' survey between 8–16 April to assess the effectiveness of government-run schemes for charities in response to the COVID-19 pandemic and found that the value has been limited to date. From the 100 respondents, the key findings were:

- The Coronavirus Job Retention Scheme was the most popular, used by 73% of respondents, followed by the Retail Hospitality and Leisure Grant (19%) and the HMRC Time to Pay service (19%). Only 4% had been able to access the Expanded Retail Discount.
- The median percentage of staff furloughed under the Coronavirus Job Retention Scheme was 51%, severely impacting on capacity and benefit delivered to their beneficiaries.
- Overall, 51% of respondents who took part in the Coronavirus Job Retention Scheme claimed that they would be able to redeploy staff to other areas of their charity if permitted under the scheme.
- Over 92% of those applying for loans through the CBIL scheme were rejected.

CFG's view is that these schemes are based on an assumption that these demand has reduced and income levels have both halted temporarily. For the charity sector, neither are true, as demand in many areas has increased and income levels will not return. These measures do not help the long-term sustainability of the sector to continue to be able to play their essential role as partners to government in meeting need, and do not go far enough to ensure even survival of the immediate crisis. The findings of the survey and feedback from our members have helped to inform our work to lobby government on making amendments to the schemes to make them fit for purpose.

Note: It's been a challenge to keep this article as up to date as possible, as the policy landscape is changing on a daily basis, so please note that the information contained here is correct as of the morning of 12 May! Please do check CFG's social media accounts, sign up to our email newsletter at the bottom of our home page, and check our blogs for latest up to date info. Thank you for your support!

Coronavirus and the role of trustees

John Tranter,
Charity Director and Charity Finance Group Trustee

Trustees have a vital role to play in helping their organisations navigate the challenging landscape, now more than ever. In our cover story this month CFG Trustee John Tranter shares his personal advice as a trustee on approaching the crisis.

Before the practical stuff, a word or two on the personal impact.

For trustees and especially for those that are treasurers, the first reaction may well have been 'I didn't sign up for this' closely followed by 'Will I be good enough?'. If so, feedback from others suggests you are not alone. There is no manual for this situation, no perfect answer and your experience, support and challenge will be especially valuable at this time. You may well have a day job and family commitments whose demands have ramped up. Make sure your fellow trustees are aware of your situation and the possible impact on you being able to fulfil your duties. And remember, your executive staff will be having similar thoughts and challenges.

• Governance
The governance responsibilities of the role are unchanged, but consider reminding yourself of the key aspects, covered extensively on the Charity Commission website. The Charity Commission has issued guidance for the sector around coronavirus and specific guidance for the sector on the financial challenges.

> *There is no manual for this situation, no perfect answer and your experience, support and challenge will be especially valuable at this time.*

Note that the Commission recognises that things may go wrong despite the best efforts of trustees to act in their charity's best interests. As you work through this crisis, ensure you can evidence how your decisions were made, why you judged them to be appropriate and how you followed any necessary regulatory guidance so that you are protected if things do go wrong.

• Beneficiary and staff wellbeing
You need to ensure that beneficiaries are safeguarded and the charity's staff are not put at risk. As ever with governance it is about asking the open questions to the executive staff, such as 'How have you gone about identifying the risks?' 'How are you ensuring beneficiaries are safeguarded?', 'What led you choose that option over others?', 'What advice have you taken?'

• Immediate going concern issues
You should by now have some assessment of the financial security of the charity. In the absence of detailed plans and scenarios, a simple approach is comparing cash balances against the ongoing level of expenditure. Your charity may already be in financial distress, with short term survival in doubt. Charities and Insolvency from Crowe is an invaluable guide, and includes guidance on the latest relaxation of the rules around wrongful trading.

• Planning and resilience
In thinking of the future, there are hundreds of different scenarios. So start with forming a consensus around what the future might look like. Such a consensus will be proved wrong in retrospect, and will evolve and adapt, but it enables the charity to start to take control of how it can best fulfil its mission in future. (And reduces down the myriad of possibilities that need financial modelling)

• Changing risk
Finally, revisit your risks, consider whether your risk processes need adapting (if only for the short term) to manage the complexity of this crisis.

Seven ways to be a good trustee during a period of rapid change

Fleur Holden,
Partner, Sayer Vincent

The current change of pace means that as fast as trustees are thinking about how to react to a government decision or announcement, the situation will have evolved before they have had time to consider or implement any actions.

Under normal circumstances, board meeting calendars are often set up a year in advance. It is a sign of good planning and efficiency to have board meeting papers sent out at least a week before a meeting, giving trustees plenty of time to read and digest the content, and come up with their questions to discuss at a meeting.

However, based on my experience of attending meetings during the last few weeks, in the majority of cases, the papers that were issued have now been superseded, either as a result of shifting priorities, or in the case of charity finances, the data needs to be updated to real time information to be relevant to current decision making.

Trustees may wish to consider the following tips:

1. Relax and reschedule your formal pre-planned board meeting calendar – if your charity is organising shorter, more informal briefings for staff teams, consider joining in via phone or video. These could include a virtual coffee or lunch break.

2. Avoid preparing lengthy board papers on short to medium term issues requiring a decision – keep papers brief and to the point with clearly required actions. Consider circulating these electronically and keep decision deadlines as short as possible. Avoid knee jerk reactions – pause for thought and delay where this may be beneficial in the longer-term. If you need additional support, please refer to the Charity Commission guidance on decision making.

3. Keep focused on risk – these are uncertain times – but cash is king and so any financial analysis prepared in support of a proposed decision should include easily understandable sensitivity analysis for different scenarios – work with your

> *The data needs to be updated to real time information to be relevant to current decision making*

management team so that this minimises their time to prepare it, and your time to understand it.

4. Hold more regular catch-ups with key members of the board and management team such as the chair, treasurer, chief executive officer and finance director, in any combination. Don't wait to discuss critical issues if someone is unavailable, be timely and relevant and update the wider team afterwards.

5. Ensure virtual meeting minutes are typed up during the meeting so they can be circulated and approved immediately. The Association of Chairs has produced its own helpful top tips on holding board meetings.

6. Collaborate and play your part – ensure action plans are appended to minutes so everyone is clear how and when to make contributions. If you agree to a follow up action, please carry it out, deadlines are critical.

7. Share and learn. Keep communicating. These are unchartered waters. We are not going to get everything right first time. But if we share our experiences and learn how to do things in a better way, this continuous cycle of improvement will result in more effective governance longer term.

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Where are we now?

Caron Bradshaw,
Chief Executive, Charity Finance Group

From results of the temperature check on government schemes to managing remote working, Caron shares her views on some common themes emerging across the sector.

I've listened to what many sector finance professionals and other leaders are doing recently. From those conversations the picture is not even but there are common themes worth sharing.

Government schemes – CFG's temperature check on the use of government schemes showed that the Job Retention Scheme (JRS) was by far the most popular. Whilst welcome, there are a number of improvements that could make it better fit charities. We're raising these. The JRS has been extended to June but it is unclear if there'll be further extensions. Keep an eye on the government briefings – as soon as the talk shifts to relaxing lockdown I believe it will be restricted or end. This could pose a serious challenge for the sector, particularly retail, as not all community or retail space is suitable for extended social distancing as a condition of reopening. We may find ourselves unable to operate but without the corresponding financial support.

Assessing lost income – We estimated a c£4bn gap (over 12 weeks). This conservative estimate did not reflect all possible loss and assumed c50% less income from fundraising, investments and

> “ *What we're doing right now is not 'working from home'. We're at home, in a crisis, trying to work.*

the private sector. Eight weeks in we are starting to see a more accurate picture. Some charities have lost 100% of their fundraising income. The stock market collapse decimated income from investments – impacting both grant makers and those relying on it to fund their work. Corporate support is a mixed picture. Contract income, excluded from the original figure, has not escaped loss as we'd originally assumed; for some work has paused and with it corresponding income. Whilst for others, performance conditions and payment calculations have been adapted to address current challenges in favourable ways.

Members are modelling the immediate crisis response (up to three months), to year end and in future years. As data becomes more certain this is a prudent step but keep the balance between fighting the fire and planning the post-fire rebuild. If your attention is still predominantly needed to douse the flames be clear on that. Trustees and CEOs will want to bring certainty in where there is none. Sometimes this desire to nail things down is counter-productive and wastes already depleted resources.

Cost reduction – Rent holidays, suspension of Cost of Living pay awards, redundancies and reduced hours/salary are all common themes. Capital expenditure projects are being delayed, operational expenditure restricted to the absolutely necessary and planned activities for the year being rewritten. Assumptions around office and property reviewed and reassessed. Everyone is acting to reduce costs.

Some closing thoughts; as attention turns to future years we'll all need to consider the shape of our organisations. There is increased talk of collaboration and consolidation; I am certain that this will incentivise more mergers and co-working. We'll have to wrestle with physical versus remote working and test our assumptions and beliefs about where, when and how our teams are most productive. But a note of caution – what we're doing right now is not 'working from home'. We're at home, in a crisis, trying to work. Just as I'd not advocate jumping from a holiday romance into marriage don't prematurely leap to permanent solutions. What works well right now may be less than ideal for the long term!

Don't hesitate to influence those who need your calm head during this crucial time. Finance professionals are trained for this crisis. This is your moment.

Changes needed for COVID-19 support measures

Roberta Fusco, Director of Policy and Engagement, Charity Finance Group

CFG's Director of Policy Roberta Fusco assesses the opportunities and limitations of current funding available to the sector.

Alongside NCVO and the Charity Tax Group, CFG has written to government officials outlining the key challenges for charities with the existing package of COVID-19 support measures, alongside us calling for some solutions to these challenges. If implemented, the changes would enable charities to make better use of the schemes, helping to mitigate some of the financial strain that charities have been under.

One of the key schemes which charities have made use of is the Coronavirus Job Retention Scheme, yet in its existing form there are challenges. Most prominently that many charities are facing a perverse incentive to furlough staff at a time when supporting the most vulnerable in society is needed more than ever. To address this we propose allowing charity staff with specific skills that support wider society, to be redeployed within their charity as a volunteer.

The Coronavirus Business Interruption Loans have not proven popular amongst charities, and even for those that would

> “ *We propose government should reconsider the fund being regarded as state aid, which would not only benefit charities, but also struggling high street shops.*

have applied, too many have been turned away by lenders. To help this we have suggested government underwriting 100% of the loans and capping interest rates after the first year.

At a time when cashflow is a primary concern for charities the £10k small business grant would be extremely valuable. As it stands, receiving charitable business rates relief, rather than small business or rural rates relief, means they are not automatically eligible. We propose that small charities that fit other relevant criteria should get these grants, especially those that cannot get access to the £750m government has provided to charities.

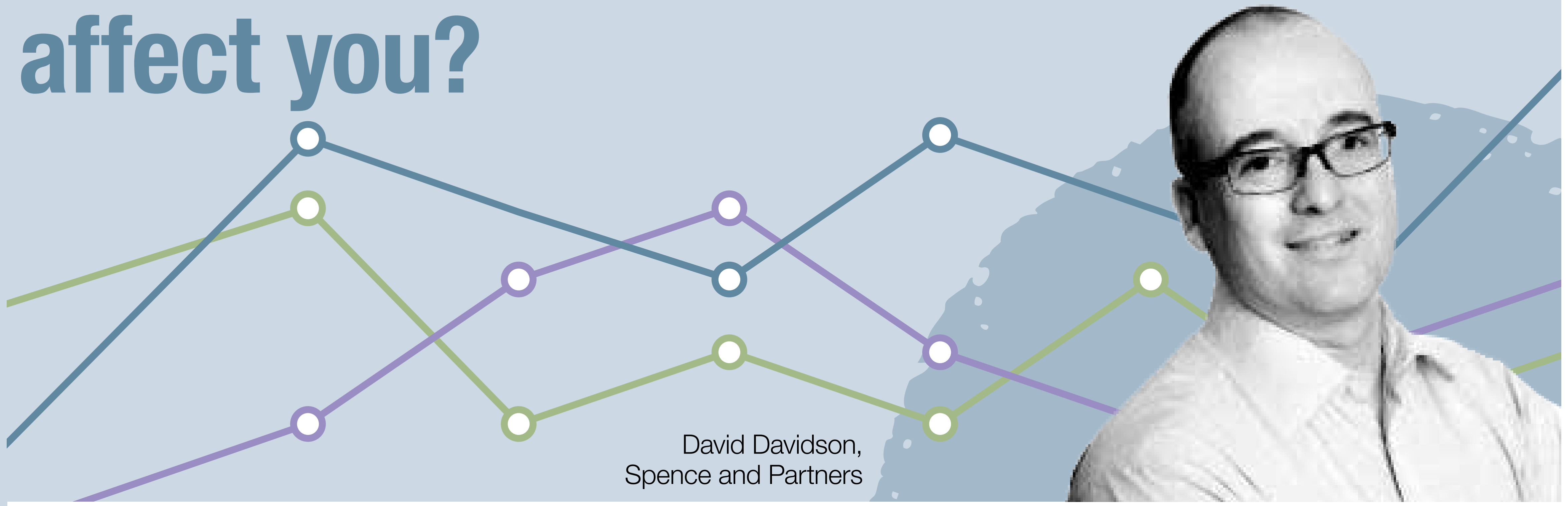
The Retail, Hospitality and Leisure grant fund does benefit certain types of charity, but due to state aid rules, the amount of money is restricted to just over £700k, which means charities with a large retail footprint will not receive full benefit from the scheme. We propose government should reconsider the fund being regarded as state aid, which would not only benefit charities, but also struggling high street shops.

HMRC has helpfully automatically deferred payment of VAT during the crisis. This has provided a lifeline for many charities. But when charities have asked to defer payment of PAYE and NICs they have incurred a 2.6% interest rate on the loan. We have asked that all charities should have the option of deferring PAYE and NICs payments and removing the interest payable to bring it in line with the VAT deferral.

We look forward to working with government to try to enact our proposed solutions.

Charity pensions

How will COVID-19 affect you?



David Davidson,
Spence and Partners

The Coronavirus pandemic is affecting lives in so many ways and we are all struggling with the new norm and looking to manage our way out in the best way possible. In terms of charity pension schemes, what steps can be taken and what can we expect over the coming months and years?

The likely impact will vary depending upon the type of scheme that organisations have and the specific circumstances of the charity, particularly how badly its finances are being affected in the short to medium term.

Defined Contribution Schemes

The vast majority of charities participate in defined contribution schemes, so at least there shouldn't be an additional call on resources to meet higher contributions. However, for those organisations struggling with cashflow, recently published guidance from the Pension Regulator has confirmed that employers can reduce contributions temporarily without the need for the usual 60-day consultation subject to meeting certain requirements. If this is deemed a necessary step, we'd recommend you consult the Regulator's Guidance or discuss with your scheme adviser.

For employers with staff planning to retire on the defined contribution pension over the last few months or in the short term, they may want to offer some flexibility given that some funds may provide much lower benefits. The current environment will be a real test for these staff and how well any lifestyle investment strategy has worked in protecting members retirement income. Employers may also want to provide some flexibility in terms of employee contributions.

Defined Benefit Schemes

For charities with their own schemes, these will all have their own actuarial valuation date. Anything pre end January 2020 will probably look fine; however, trustees may be reticent to sign off on a valuation without taking in to account recent developments and fully understanding how they impact the charity's covenant.

More recent valuations, post February 2020, are likely to show a much deteriorated financial position. However, it's unlikely results will be available for at least six months. Valuations must be signed off within a 15 month period so at least that allows some time for recovery prior to final decisions being made, meaning there'll undoubtedly be a watching brief for many months with likely increased advisory costs to support any deliberations. However, it does seem unlikely within this period that any downturn is fully recouped so employers may still have to deal with increased contribution requirements or longer funding terms.

> *More recent valuations, post February 2020, are likely to show a much deteriorated financial position.*

In the short term, trustees have been provided with some additional flexibility by the Pension Regulator in relation to deficit reduction payments and charities should engage with their scheme trustees to agree a future strategy. The funding impact will also vary greatly depending upon how assets have been invested, with schemes which are well hedged likely to witness less material negative changes than those which are not. It could well be that very specific advice focused on the charity is required to achieve the best outcome.

In the shorter term accounting valuations may be more problematic as adverse FRS valuations could place more stress on balance sheets and again this needs to be carefully managed.

Many charities will participate in multi-employer pension schemes and I've already witnessed these issuing helpful guidance on what flexibility is possible, but with so many employers to deal with, early engagement is recommended.

We then have many thousands of charities that participate in Local Government Pension Schemes across the UK. The likely impact will differ markedly depending upon which jurisdiction you participate in.

For charities in LGPS England & Wales, the last actuarial valuation was at 31/3/2019 so contributions will have been set and new contributions will have started from April 2020 with an agreement to run for three years to 2023. It's unlikely therefore there'll be any change in contributions until post 2022 valuation which offers a longer timescale to see some potential recovery, but charities would be well served by keeping their position under review particularly if there was any risk of an exit from the fund in the intervening period. Current cessation deficits on a gilt basis are likely to be at record highs so it's unlikely employers would chose a planned exit at the moment but would want to try and make sure they didn't trigger a cessation debt inadvertently. Charities really need to be on top of this as it is very high risk for them operationally.

Almost all LGPS participants throughout the UK will be doing FRS102 returns for their accounts at 31/3/2020. Inflation has been slightly lower than last year which is good news as it places lower value on liabilities, but discount rates are also lower which will place a higher value on liabilities. On balance I would have expected liability values to have increased and asset values

> *So many of the funding and accounting problems are likely to be masked until later in the year.*

to be lower so overall would expect a deterioration of the position which could really hit many charities balance sheets. Figures not likely to be available from Funds until around June and then accounts not finalised until year end, so visible impact likely to be delayed until the end of 2020.

So many of the funding and accounting problems are likely to be masked until later in the year.

In terms of contribution flexibility within LGPS, this is likely to be much more limited than in private sector schemes as there is not really any flexibility to waive or defer contributions under LGPS. Funds are offering to have discussions but it will be interesting to see if any of those result in actual changes to contributions.

It would be worthwhile government considering some flexibility being added to the Regulations to facilitate this and to add some flexibility around timing of valuation in exceptional circumstances to give Funds some scope.

For most charities, the first sign of the financial impact is likely to be when they received FRS102 valuations with more negative impacts on funding and contributions unlikely to be visible prior to late 2020, early 2021 but with the impact likely to be very material.

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Mergers in the charity sector – better together?

Sarah Priester, Chartered Accountant and M&A Specialist

In the wake of the COVID-19 pandemic, charities are turning to consider new models and ways of working to ensure their long-term resilience and relevance. Chartered Accountant and M&A specialist Sarah Priester discusses some key areas of exploration.

As the coronavirus pandemic impacts across the globe, many charities face the challenges of survival, just when they are needed most. Charities are having to consider and reconsider new options for their long-term future, and for some a merger may be a worthwhile avenue to explore.

Mergers are a sensitive topic that conjure up images of aggressive takeovers and evoke an array of emotions. According to *The Good Merger Index* (GMI) report, there were only 58 charity mergers in England and Wales in the year 2018/19, out of 168,000 registered charities. This report goes on to describe mergers as a taboo subject which is often feared; however, it could be worthwhile to review in your organisation, as mergers could facilitate many benefits.

> *If two charities can achieve more together than they can apart then a merger should not be feared, but considered as a positive way to increase impact.*

Benefits of a merger

The benefits of a merger can be broken down into “the five S’s”:

1. **Services** – exploiting synergies between complementary services to create a one-stop-shop
2. **Scale** – increasing the number of beneficiaries reached and often their geographical range thus increasing visibility and influence
3. **Skills** – gaining access to a larger skillset by obtaining high quality or specialised staff
4. **Savings** – improving efficiencies by sharing best practice and reducing duplication resulting in lower costs
5. **Sustainability** – improving financial security as part of a bigger organisation and increasing attractiveness to funders.

The key to maximising the benefits is to find the right partner – but how do you go about this?

The right partner

Depending on the motivations for a merger, the characteristics of a partner will differ. A charity struggling to survive may seek the security of a larger organisation offering similar services. In this case, a takeover is likely to be the outcome. If the motivations for a merger include diversification to extend service offering, a partner delivering different but related services may be more appealing.

With any motivation in making this change, culture and values should be considered carefully. Before embarking on a formal merger process, a transparent and trusting relationship should be formed and a shared vision agreed.

Process

Once a well-matched partner has been found and both boards have formally approved commencing negotiations, the merger process can begin.

The key steps are:

1) Set-up a joint transaction team – consisting of an equal number of people from each party
2) Negotiate terms and perform due diligence – this should include legal, financial, HR, pensions, property and operations
3) Obtain final approval from the board
4) Implement the transaction – legal structuring and integration
5) Open the Bucks Fizz

Better together?

In an ideal world an organisation would approach a merger from a position of strength. This allows the full benefits of an organisation to be realised by sharing knowledge and scaling-up services rather than another organisation simply rescuing them. However, this world is far from ideal. “Distress mergers” are still effective; saving vital services that would otherwise be lost.

If two charities can achieve more together than they can apart then a merger should not be feared, but considered as a positive way to increase impact.

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Essential updates on tax

Richard Bray, Finance Regulatory & Taxes Manager, Cancer Research UK

Ahead of his session at our VAT, Tax and Gift Aid Conference in June, Richard discusses the key tax issues to consider right now.

When I was first asked to take part in the VAT, Tax and Gift Aid Conference the world was very different to what it is now! As charities we face considerable challenges from the impact of COVID-19 and it is an equal challenge to keep up with the government measures that have been introduced to help us combat some of the worst aspects of the crisis. Many of them are tax related. There seem to be new announcements on a daily basis. It can all seem very confusing.

By the time of the Conference there should be much more clarity on the tax landscape for the coming year as matters will surely settle down. It proved necessary for the government to announce initiatives before the detail was in place. This means that the guidance is often lagging behind.

For the time being what are key issues to bear in mind?

Cash flow

It is possible to defer VAT liabilities due between 20 March and 30 June until 31 March 2021. But this will not happen automatically. Your direct debit for paying VAT needs to be cancelled. Importantly, there will be no interest charge.

PAYE and NIC liabilities can also be deferred by agreement with HMRC. But at the time of writing these attract an interest charge.

But, at the risk of stating the obvious, these are only deferrals and there will be a time when the liability will need to be paid.

Meeting time limits

With charity finance professionals having so much to deal with at the moment, including remote working, meeting tax time limits may be a problem. There is every indication that HMRC will be sympathetic when there is genuine reason why one cannot be met. It will help a charity to make sure that HMRC are aware of the problem before the time limit passes.

Where a charity has charity shops which claim Gift Aid under the Retail Gift Aid scheme letters are meant to be sent to supporters by 31 May each year telling them what has been raised from their donated items. This may be impractical this year, especially when retail employees are on furlough. HMRC will agree to extend this deadline. But so far this is only on a case by case basis.

The time limit for compliance with Making Tax Digital requirements for 'digital links' has been put back to 31 March 2021. This is welcome when there is so much else to think about.

New tax initiatives

The government's furlough scheme is administered by HMRC. Extensive guidance is available including a YouTube guide. Only one claim can be made for each claim period, so make sure that each claim is checked carefully.

HMRC have agreed that tickets and entry fees for cancelled events which the supporter subsequently wants to donate to the charity can be Gift Aided. There are specific requirements for this to happen.

'E' publications can now be zero rated from 1 May (brought forward from 1 December). This should reduce costs for many charities

In conclusion

Dealing with tax issues well will be a key part of charities getting through to what the new "normal" will eventually be. The CFG VAT, Tax and Gift Aid Conference in June will help you navigate that journey.

CFG VAT, Tax and Gift Aid Virtual Conference on 16 June. Members early bird rate available now. Book at **www.cfg.org.uk/VTG**

Some of our events and training are postponed due to COVID-19, and so our events team and speakers are working hard to bring you the same great content online wherever we can.

Below are our online events currently available and we have more to come very soon. If you have any questions about our events and training programme in the meantime do get in touch with our team at **events@cfg.org.uk**.

MAY MEMBERS' MEETING

Date: Tuesday 26 May 2020

Time: 14:30–16:00

Location: Online

This meeting is free and open to CFG members only

Full programme and bookings: **cfg.org.uk/MMMay20**

Our second Members' Meeting in May will focus on HR in relation to COVID-19.

Join to find out the how the recent HR updates following COVID-19 affect your organisation and hear from experts on retention and recruitment in the coming months. There will be a live Q&A, giving you the chance to ask questions of the experts.

Book your place at cfg.org.uk/MayMM20

VAT, TAX AND GIFT AID CONFERENCE

Date: Tuesday 16 June 2020

Time: 09:30–13:40

Location: Online

Member early bird £70, non-member £116

Full programme and bookings: **cfg.org.uk/VTG**

Charities are missing out on £560m due to unclaimed Gift Aid donations and COVID-19 is creating further financial uncertainty for many charities, meaning this money is now more important than ever.

This online conference will provide updates on the latest in tax, VAT and Gift Aid that charity finance professionals need to know about in the coming year. It will offer both an introduction and a deep dive into pressing issues encountered by charity finance professionals at all levels. With a live Q&A it will be an excellent opportunity to seek advice of our experts.

Book your place at cfg.org.uk/VTG

CFG ANNUAL CONFERENCE
CREATING A BETTER FUTURE 2020

Date: Tuesday 13 October 2020

Time: 08:15–18:00

Location: The Queen Elizabeth II, London

Member rate £287, non-member £489

Full programme and bookings: **cfg.org.uk/ac20**

Book now!

Our flagship event, CFG Annual Conference, has been moved to the 13 October. Plus, we're also bringing you a new, additional digital programme on 13–14 May.

The digital sessions will focus on what you need to know right now and how to manage your resources effectively during COVID-19, and will give you the opportunity to ask questions of the experts.

In October we'll bring you five streams of sessions, so you can tailor the programme to get the most out of the day, plus over 50 exhibitors bringing specialist knowledge to address challenges unique to your organisation.

In these uncertain times, the 2020 conference aims to instil new confidence and a fresh perspective in a transforming landscape. The theme of the conference – **Creating a better future**, is now more important than ever.

CFG member rate of £287 is available now, saving you almost 60% off the full price.

Book your place at cfg.org.uk/ac20

Charity reporting: Let's talk about impact

Rachel Pigott CA,
Financial Controller, Brightside and
Christine Scott,
Head of Charities, ICAS

Impact can be defined as a change in positive or negative outcomes for people or the planet.

Charities exist to create a positive and sustainable impact. But how can charities better understand and measure the impact they have more effectively? And how do charities report and communicate their impact to external stakeholders?

How do charities communicate impact?

Every charity answers these questions differently. Charities have a statutory requirement to provide public benefit. Charities in England and Wales are also required to explain, in their trustees' annual report, the main activities they undertake to further the charity's purposes for the public benefit. However, due to the limited regulatory requirements, there is a huge variation in the robustness of impact reporting.

Some organisations focus on anecdotes or case studies, some provide activity data, and at the other end of the spectrum, others provide triangulated, longitudinal data and use control groups.

While charities employ a variety of methodologies, there is often a lack of transparency around externally reported impact measures and rarely any mention of how the charity has ensured that the underlying data used to prepare the measures is accurate.

As a sector, charities can and should do better.

Why should we care?

There are many reasons why charities should care about high quality, robust impact reporting. Here are three of them:

Impact reporting is a form of performance management – robust impact reporting is the foundation for achieving a high impact and ensuring resources are directed to activities with the highest impact.

Impact reporting can help change the narrative – media commentary on charities is often based on the flawed assumption that frontline spending is better than back-office spending. While charities should, of course, ensure they are working as efficiently as possible and keep a laser focus on their beneficiaries, not all back-office cuts are good news as these can damage an organisation's ability to drive positive impact. Robust reporting on impact and outcomes can help change this narrative.

Impact reporting builds trust and confidence – reliable information that communicates the impact on a charity's beneficiaries can demonstrate the value of an organisation to its stakeholders.

How can we do it better?

Measuring and reporting on impact is hard. There is no 'one size fits all' approach. It is even harder when there are no direct beneficiaries or when the impact is not short-term. However, there are some general principles that can help improve reporting, if applied proportionally, in line with the size and complexity of the charity. As a rough guide, impact reporting should be:

- Outcome-based – what was the change for beneficiaries as result of the charity's work?
- Transparent – where do the numbers come from?
- Verified – how do we know these are the right numbers?
- Honest – what didn't go so well and why?
- Regular - not just produced for the trustees' annual report and accounts.

Looking ahead

The Charities SORP-making body is about to embark on a significant review and update of the Charities SORP – the new SORP development process. This exercise is different; it isn't being undertaken as a consequence of changes to UK accounting requirements. The primary focus is on how to make the Charities SORP (FRS 102) work better for charities and charity accounts preparers. From a charity accounts perspective this will be challenging as requirements in a revised edition of the Charities SORP will still need to comply with UK accounting requirements.

There is perhaps more scope for innovation within the Trustees' Annual Report requirements included within the Charities SORP. Both the Charity Commission for England and Wales and OSCR have been talking about the importance of trustees taking ownership of their Trustees' Annual Report and using it to tell their charity's story.

While there are detailed regulatory requirements around the content of Trustees' Annual Reports in some jurisdictions, for example, in England and Wales, these do not present a barrier to introducing impact reporting requirements to the 'Achievements and performance' section of the Trustees' Annual Reports SORP module. Therefore, charity's which embrace impact reporting voluntarily could provide valuable insights to the SORP development process and as well as being in a good position to comply with any new requirements.

EVENTS AT A GLANCE

CONFERENCES

VAT, Tax and Gift Aid
Tuesday 16 June
Online

Annual Conference
Tuesday 13 October
London

MEMBERS' MEETINGS

May Members' Meeting
Tuesday 26 May
Online

ROUNDTABLES AND WEBINARS

Financial Reporting Webinar
Thursday 21 May
09:00–10:00

TRAINING

People Management for Finance Professionals
Tuesday 19 May
London

Foundation Investment Training
Wednesday 15 July
London

Advanced Investment Training
Tuesday 6 October
London

Foundation Charity Finance
Monday 12 October
London

Audit Committee Training
Friday 6 November
London

Foundation Investment Training
Wednesday 18 November
London

Advanced Charity Finance
Monday 30 November
London

SAVE THE DATE

Alternative Finance
Thursday 17 September
110 Rochester Row, London SW1P 1JP

Large Charities Conference
Monday 28 September
Tower Place West, 50 Lower Thames Street, EC3R 5BU

For further information and full programme information on CFG's training and events, visit cfg.org.uk/events

CFG ANNUAL CONFERENCE

CREATING A BETTER FUTURE

2020

TUESDAY 13 OCTOBER 2020

QEII CENTRE, LONDON

Join sector leaders and professionals from across the charity and corporate worlds at CFG's Annual Conference 2020, *Creating a Better Future*.

With five streams to choose from and over 25 speakers from across the sector, attending the essential charity finance event of the year will set you on a forward-looking journey, galvanise you into creativity and empower you to play an active and informed role in creating a better future in the non-profit sector.

FIND OUT MORE AND BOOK YOUR PLACE AT CFG.ORG.UK/AC20 FOLLOW @CFGTWEETS #CFGAC20 FOR UPDATES