CFG Consultation Response

Annual Return 2018

November 2017

About Charity Finance Group

Charity Finance Group (CFG) was founded in 1987. It is the charity that works to improve the financial leadership of charities, promote best practice, inspire change and help organisations to make the most out of their money so they can deliver the biggest possible impact for beneficiaries. CFG has nearly 1400 members and our members manage nearly £21 billion in charitable income. Finance professionals are often responsible for compiling the data that is required to successfully complete the Annual Return.

To respond to this consultation CFG conducted a survey of members, asked for feedback at Member Meetings and held a meeting of our Technical Accounting Forum, which brings together auditors and charity finance professionals, specifically on the consultation.

For more information on this response please contact Andrew O'Brien, Head of Policy and Engagement, on 02078715477 or andrew.o'brien@cfg.org.uk

Overall comments

We welcome the effort that the Charity Commission has made to seek to improve the layout and presentation of the Annual Return in order to make it more user-friendly. The Charity Commission is also to be commended for its efforts to engage charities in user testing, which CFG members have engaged in, so that it is able to get the best designed interface possible.

Overall, we support the movement towards a more flexible Annual Return and a new service, Updated Charity Details (UCD), which should make the process easier for charities.

However, we are concerned that the additional questions that the Charity Commission is seeking to include will eliminate most of the time savings that this new approach will generate. Feedback from members indicates that the new questions will actually lead to the Annual Return becoming much more burdensome for charities, particularly those that have more complex financial structures such as those that work overseas or deliver public services.

A frequent comment made by members during this consultation has been the lack of a rationale behind many of the new questions that the Charity Commission wishes to add to the Annual Return. There is a concern that the Charity Commission is seeking to collect data in the hope that there will be a productive use for it, rather than having a clear plan for what the information will be used to achieve. Regardless of what decisions are made, more needs to be done to communicate to charities what the Charity Commission is doing with their information so that there is more confidence that additional effort will be time well spent.

For several of the questions proposed there are other data sources available. However, the Charity Commission is choosing to ask charities to do the administrative work of converting existing data into a format which can be used by the Charity Commission. **We fundamentally disagree with an approach which ignores the potential for new technology or for better information sharing between government agencies, but instead passes the burden onto the regulated population.** In our view, this contravenes one of the core principles of Better Regulation which is that all avenues should be considered before a decision is made to impose a further regulatory burden.

The lack of resourcing of the Charity Commission in recent years means that the regulator has not been in a position to adopt digital accounting reading technology, such as iXBRL, which could reduce the administrative burden on charities. **Rather than asking charities to manually populate the data it wants to have access to, the Charity Commission should make the case to government for investment in digital technology to improve its operations.** The government has already given £8m for digital improvements in the Charity Commission, so the government already understands the value of technology. An even stronger case could be made for iXBRL.

The Charity Commission must also be careful about its own reputation and operational effectiveness. If all the questions proposed in this questionnaire were to be imposed on charities, the Charity Commission would see a significant increase in the data that it collects on charities. Yet there is unlikely to be an increase in staff time to be able to analyse the data. As a consequence the Charity Commission may find itself buried under a sea of data which is not able to use effectively because of resource constraints. Moreover, the collection of data creates the assumption that the data will be used pro-actively to counter risks in the sector. This is likely to create a situation where incidents occur in the charity sector and the Charity Commission will have 'known' about it because of the data that it would collect. A lack of action to prevent an incident occurring will lead to accusations that the Charity Commission is not an effective regulator. This would undermine confidence in both the regulator and the charity sector as a whole.

It is important, therefore, that the Commission's reach does not extend its grasp and that it only focuses on those areas of risk where there is both a pressing need and where there is the resource to act upon the data received. In some cases, such as Gift Aid, data is being asked for on areas for which the Charity Commission has no regulatory responsibility. This seems like a clear example of administrative overreach.

More generally, it is important that the Charity Commission does not hide behind a "wall of data" when regulating the sector. Many members and experts have commented to us that the data being asked for will not actually identify problems but merely beg more questions. Further analysis of the data will be required to identify whether regulatory action is required, and this will require individuals with a good understanding of the sector. Staff with a strong understanding of the charity sector and an ability to analyse complex organisations is a more effective regulatory tool than bulk data collection. As resources are constrained, spending time and money on bulk data collection is a false economy compared with 'boots on the ground' who are able to investigate, interpret and act on incoming information.

The Charity Commission has repeatedly said in its discussions with us that it wishes to understand the sector that it regulates better. This is a noble aim and one that we support. However there are better ways of understanding the sector than simply asking more questions in the Annual Return. The work that the Charity Commission has done on bank de-risking, which has involved engagement with affected charities and working closely with infrastructure bodies, has demonstrated that a strong evidence base can be generated for regulatory action without the need for excessively burdening charities. More outreach of this kind, which draws on the strength of existing charity networks and infrastructure, would be low-cost and a more targeted way of achieving the end of better understanding of the charity sector.

We are also disappointed with the Commission's decision to issue a press release in the week before the consultation deadline finished which said that responses had been "largely positive". The Charity Commission opens itself up to accusations that it is seeking to lead or influence responses towards more positive feedback. It is important that the Charity Commission communicates with the sector effectively to source views on its work, but this must not involve shaping or seeking to influence consultation responses.

Relationship with Annual Report & Accounts

As referenced several times in this response, additional information asked for in future Annual Returns is often available in the Annual Report & Accounts. The Charity Commission should do more to invest in technology to ensure that information can be read through digital tools, such as iXBRL.

However, we are concerned that the Annual Return is being turned into as something that will be a "snapshot" of individual charities removed from the Annual Report & Accounts. This is not an approach we support. The Charites SORP Committee is already considering whether an executive summary to the Annual Report & Accounts is required, but the overwhelming view of charities is that this would be unhelpful and would lead to misinformed judgement. We recognise that the register is an important method by which the public can interact with charities. But it should not be developed into a tool which bypasses Annual Reports & Accounts. Charities have been asked to provide significant information through the Annual Report & Accounts, it would be disappointing if this work was to be ignored because the public is directed towards a simplified picture in the Annual Return.

The Charity Commission has also publicly spoken about the way that the Annual Reports & Accounts should be used as a way to tell the story of the charity. The Charity Commission must back this up by ensuring that the Annual Return compliments the Annual Report & Accounts. Information should not be taken out of the accounts and presented in isolation through the Annual Return. More work should be done to link the information in the Annual Return and the narrative of the Annual Report together, so that the public does not get a partial view of the operations of charities.

We believe that there is a case for the Charity Commission to delay the implementation of the Annual Return whilst we discuss how its purposes, how it interacts without reporting requirements and the information collected by other government agencies. A pause would also allow time for a bigger conversation about

the future of the Annual Return, the use of technology and the relationship with the Annual Report & Accounts. This would enable us to put in place a framework which works not just for one year, but for years to come.

Methodology

Over the past month Charity Finance Group has been running a survey of charity members to ask their views on the Annual Return. As many charities do not have the time to participate in the Charity Commission's survey this is a useful way of getting their views.

In total 144 charities took part in our survey, which is a significant number of organisations. They covered a range of activities from international development and social care to military veterans.

A disproportionate number of charity respondents were large charities. This is in line with our membership but also the professional capacity of the charity sector. Moreover, a large number of the questions in the Annual Return will disproportionately impact the largest charities because of the scale and range of activities that they undertake.

Professional fundraisers

Charity Finance Group does not have a position on whether to introduce questions regarding professional fundraisers. We recognise that there has been significant change in the regulation of fundraising. We also note that there have been a number of cases where charities have poorly written agreements or lacked the financial skills to negotiate effectively. As they are currently worded, however, we are not sure whether the question will significantly aid the Charity Commission in identifying issues as they are too broad. Although the Annual Return will identify the population of charities which have commercial partnerships or work with professional fundraisers, we have not been told how the Charity Commission will analyse this information to identify charities which are in difficulty.

Our members were split on the issue of adding this question to the Annual Return. 49% were in favour of adding the question, 25% were against and 26% didn't have a clear view.

In written comments, a number of respondents raised concerns about whether this information would achieve anything either for the reasons cited above, or because unscrupulous professional fundraisers/commercial participators will find ways around the rules.

There was also a desire that the Charity Commission should align the information that it is requesting with the Fundraising Regulator, and that it may be that the Fundraising Regulator is better placed to source this information or to provide support to the Charity Commission's work in this area.

Overall, we do not object to the introduction of questions on professional fundraisers. However, we believe that more detail needs to be provided on how this information would be analysed before it is introduced. Otherwise there would be concerns that

this is unnecessary. It is also important that the Charity Commission works with the Fundraising Regulator to ensure that information gathering is coordinated and charities are not asked to provide the same information in different forms for different regulators.

Gift Aid

We have deep concerns about charities providing more information about Gift Aid via the Annual Return for a number of reasons. Firstly, this is not an area which the Charity Commission regulates. Gift Aid is the responsibility of HMRC and charities already have significant levels of guidance to comply with. HMRC also has the responsibility to audit charities for Gift Aid compliance, not the Charity Commission. We do not believe the Charity Commission should, as a rule, collect information for areas where it does not have regulatory responsibility and for which there is already another body already responsible for regulation. We are also concerned that this question could set a precedent that the Charity Commission provides more direction for charities on Gift Aid and tax reliefs, further burdening and confusing the sector.

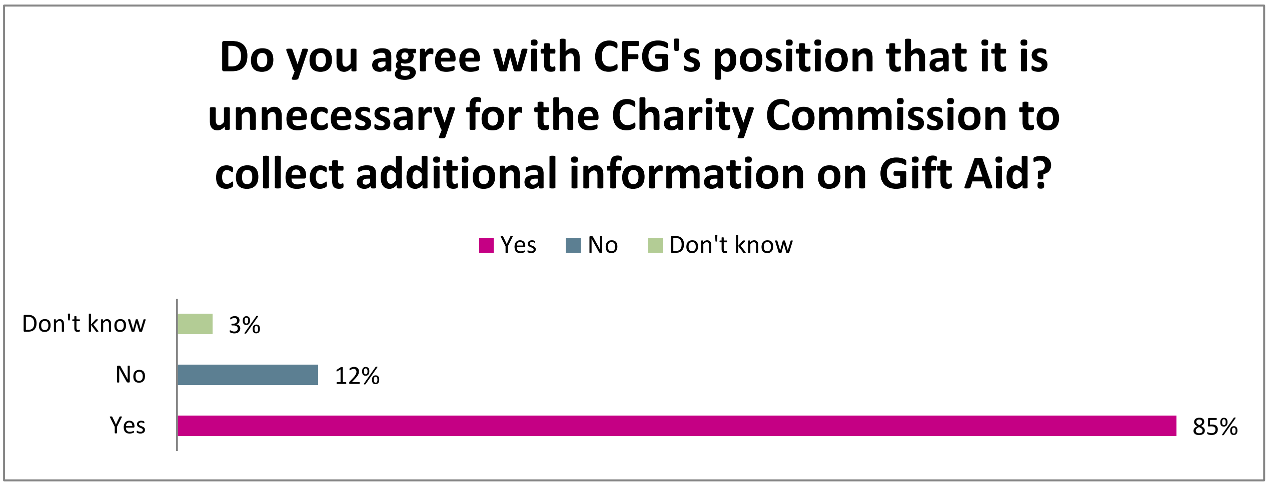
Secondly, we do not believe that the information being asked by the Charity Commission is useful. There are around 70,000 charities that claim Gift Aid on a regular basis, and the sheer volume of respondents to this question makes it almost impossible that the Charity Commission will be able to identify bad practice. Merely knowing the amount of Gift Aid claimed by a charity in itself is very unlikely to give the Charity Commission grounds for investigation. HMRC is in a better position to do this through the real time use of data and it already has powers to freeze or suspend the ability to utilise charity tax reliefs should that be necessary.

Finally, as noted above, HMRC already collects significant amounts of data on charities. We understand that some of this data is not in a format which can be used by the Charity Commission currently. However this is not a reason to ask charities to provide it, particularly considering that 52% of the charities that responded to our survey said that this new question would cost them money or time to collect. We believe that the Charity Commission and HMRC need to work closer together. Moreover, when HMRC audits charities and this raises issues around mismanagement or governance, this should be raised with the Charity Commission. This would be a more targeted use of information which is likely to yield better results than trawling limited Gift Aid information for charities.

A few years ago, it was proposed that there should be joint-registration for both Charity Commission and HMRC. Information sharing between the Charity Commission and HMRC should be seen as part of a wider movement towards more a joined-up approach between both regulators. This additional request for information indicates two regulators continuing to work in isolation, rather than working closely together. **The Annual Return should not be used to bypass difficult conversations between the two regulators.**

No information is given in the consultation as to why this information is urgent. We recommend, therefore, that the Charity Commission works with HMRC over the next few years to develop a means by which existing information can be better shared between them.

When we asked charities, 93% agreed that the Charity Commission should do more to work with HMRC to collect this information – if it is necessary – rather than ask charities to provide the information at increased cost to the sector.



When we asked our members whether they agreed with our position, that this information is unnecessary as HMRC is responsible for regulating Gift Aid, the vast majority of charities agreed, as highlighted in the bar chart above.

Charities were also concerned that this information could be misleading if shared with the public. Understanding about Gift Aid is not strong in the public domain and previous media stories on Gift Aid have given the impression that Gift Aid is a form of government subsidy, rather than being a choice of donors to give the charity a portion of their income tax or capital gains tax. As this simplistic information will not be useful in determing whether or not a charity is operating effectively, we do not believe that this information should be made public if the question is introduced into the Annual Return.

The Annual Return can be a useful tool in educating the public, but we no evidence has been given how this one piece of information would boost public understanding on this particular topic.

We do not support the introduction of a question on Gift Aid to the Annual Return. No strong case has been put forward in the consultation for why this information is necessary, and it would set a bad precedent for the Charity Commission to collect data on tax reliefs which it does not regulate. We are also concerned that this question is avoiding the bigger issue about the lack of collaboration between HMRC and Charity Commission. HMRC's data on Gift Aid would be more effective for the Charity Commission's purposes than a simple question about how much Gift Aid charities collect.

Government grants and contracts

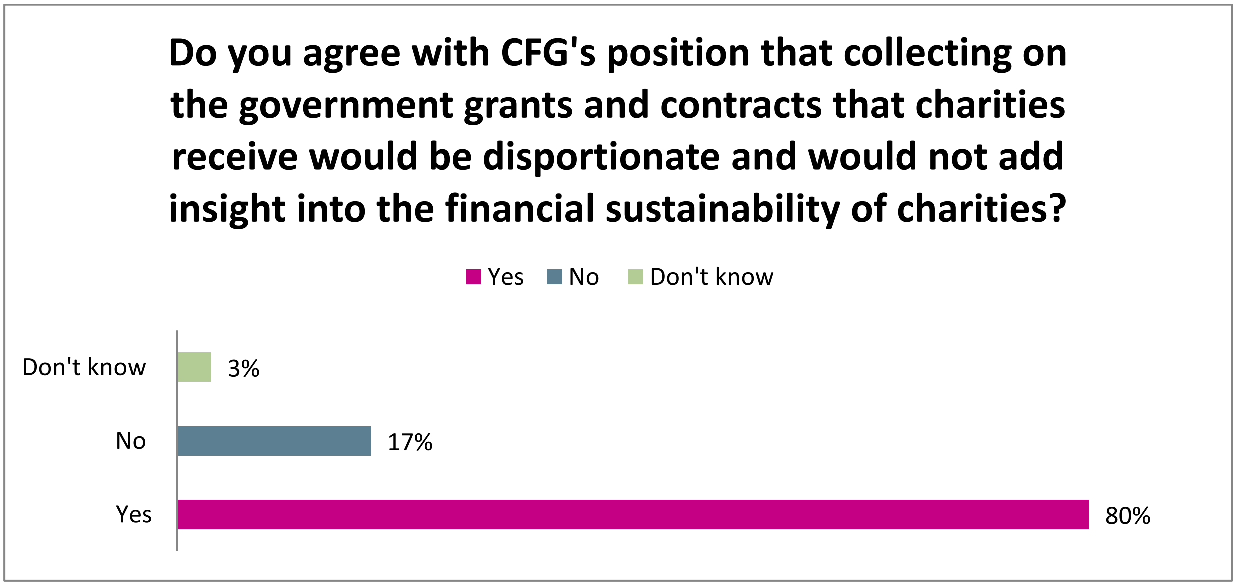
Little information is provided in the Annual Return consultation to support asking for additional data on the government grants or contracts that charities receive.

We appreciate that the Charity Commission wishes to understand the sector better. However sophisticated data on the sector, such as the NCVO Civil Society Almanac, already provides a good picture of the levels of government income in charities – broken down by region, size and activity of the charities in question. Although the NCVO Almanac does not cover all the charities in the register, it does cover that part of the population which is likely to be of most interest to the regulator in terms of financial sustainability. Other sectors not covered have their own regulators or funders which are likely to have information on other parts of the population, e.g. universities and churches.

The Charity Commission's view that reliance on a single form of funding can be risky is true in some circumstances. However this is not a universal truth and it applies not merely to government income but all sources of income. The Charity Commission's consultation document begs more questions than it asks, therefore, when it requires information on merely government grants and contracts. Why not fundraising? Why not investments?

Reliance on government income can be risky, but that depends on the circumstances of the charity in question, the nature of the work that it does and the relationships that it has with the government bodies that fund it. All this information cannot be gleaned from the simple questions proposed by the Charity Commission.

The Charity Commission already provides sufficient guidance for charities on public service delivery and has made clear the risks to charities through over reliance on one funding stream in several other areas of guidance. Collecting this information does not appear to add value beyond the work that the Charity Commission is already doing in this space. As referenced above, we do not support an approach where information is collected only for decisions to be made later on how it can be usefully applied. This will encourage the Charity Commission merely to ask for more and more data.



We found high levels of support for CFG's position that this information is disproportionate and would not add insight into the financial sustainability of charities. Written comments highlighted that the value of contracts and the number, which are material to the income of the charity in question, are already provided through the Annual Report and Accounts.

Several respondents have noted to us that the lack of context for this data means that it should not be published by the Charity Commission, should the question be added to the Annual Return. The Annual Report and Accounts will outline the charity's financial strategy and how it is delivering an impact, whereas bare numbers in the Annual Return on the number of contracts and value of contracts is likely to read to give a misleading picture. This is part of our broader theme that the Annual Return should complement and not undermine the Annual Report & Accounts.

The Charity Commission has not appeared to have considered how changes in the way that the government operates could help the Commission gather this data in a less intrusive and burdensome way. The government will be asking for charity numbers to be provided via the new Contracts Finder portal for central government contracts, in time it is proposed that this is expanded to local government and other public bodies. The government is also committed to improving the Grants Register which will have further information on the information on income received by charities.

As with Gift Aid, the Charity Commission should work better with existing government departments to ensure better data collection rather than seeking to further burden the charity sector with additional reporting requirements. 70% of respondents said that this information would involve them having to collect spend additional time and money in order to collect this data. Given this increase in burden, and the lack of urgent need for the information we recommend that the Charity Commission works with government agencies to see whether there are ways that it can better share data before asking charities to go through the effort of providing this information.

We do not support the introduction of a question on the number and value of government grants and contracts. We do not believe that this information gives an accurate view on the financial sustainability of a charity and no clear case has been made by the Commission for why the information is needed. As with Gift Aid, we believe that the Charity Commission has not fully considered the other options avaliable to gather this information. The Charity Commission should work with other government agencies on how data on Contracts Finder and the Grants Register can be shared with the Commission before burdening charities with collecting this information and reporting on it.

Income and expenditure overseas

Income from overseas

We have received significant concerns from our members, particularly charities working overseas, on the addition of questions on income and expenditure overseas.

Firstly, we are concerned about the addition of questions on income from overseas for a number of reasons. At a global policy level, the United Kingdom has raised concerns with several countries around the world about the "closing space for civil society". Part of this closing space has been caused by charities being asked for excessive information about sources of funding that that they receive from overseas in an attempt to discredit them and their work. Countries such as Russia and Egypt, which do not have strong human rights records, have introduced these requirements. If the Charity Commission was to introduce this type of question in its own Annual Return, not only would it undermine the UK's voice on behalf of civil society around the world but it would also give justification to other states which may wish to clamp down on civil society organisations in their own countries. The Charity Commission must take its global role and impact seriously and decisions on the Annual Return of this nature should not be taken lightly.

We are also concerned that these questions are not in keeping with global standards on money laundering and counter-terrorism financing. The Financial Action Task Force (FATF) changed Recommendation 8 on Non-Profit Organisations to call for states only to put in place "proportionate" measures to combat risks facing the sector. It would be unfortunate that after significant work by Charity Commission and UK officials at a global level to introduce this change, that the Charity Commission would respond by increasing the level of reporting to a disproportionate level.

The Charity Commission has not made a strong case for why this information is necessary to collect in its consultation response. As noted above, data sources such as NCVO Civil Society Almanac could be better used to find out flows of funding from certain countries into the charity sector. We also do not understand why the Charity Commission needs to collect information on *all* sources of funding for charities from overseas. For example, does the Charity Commission have concerns about money received from Germany, from Spain or Papua New Guinea?

We understand the one of the motivations behind the addition of this question is the Home Office's concern that charities are being funded by certain Middle Eastern countries to support extremism. The Home Secretary in July 2017 made a statement that the Charity Commission will require charities to declare overseas funding sources. This was before the consultation was introduced and before there had been a discussion with the charity sector on its utility. It would be disproportionate if the Charity Commission was to require that the whole sector should report on income from every country around the world in order to meet government concerns about a few countries in the Middle East funding charities. No evidence has been provided to the charity sector on how widespread this issue is or whether collecting data on this would be proportionate to the level of risk in the charity sector. As a consequence it is hard to make a judgement on whether the need for the Charity Commission to have this information is pressing.

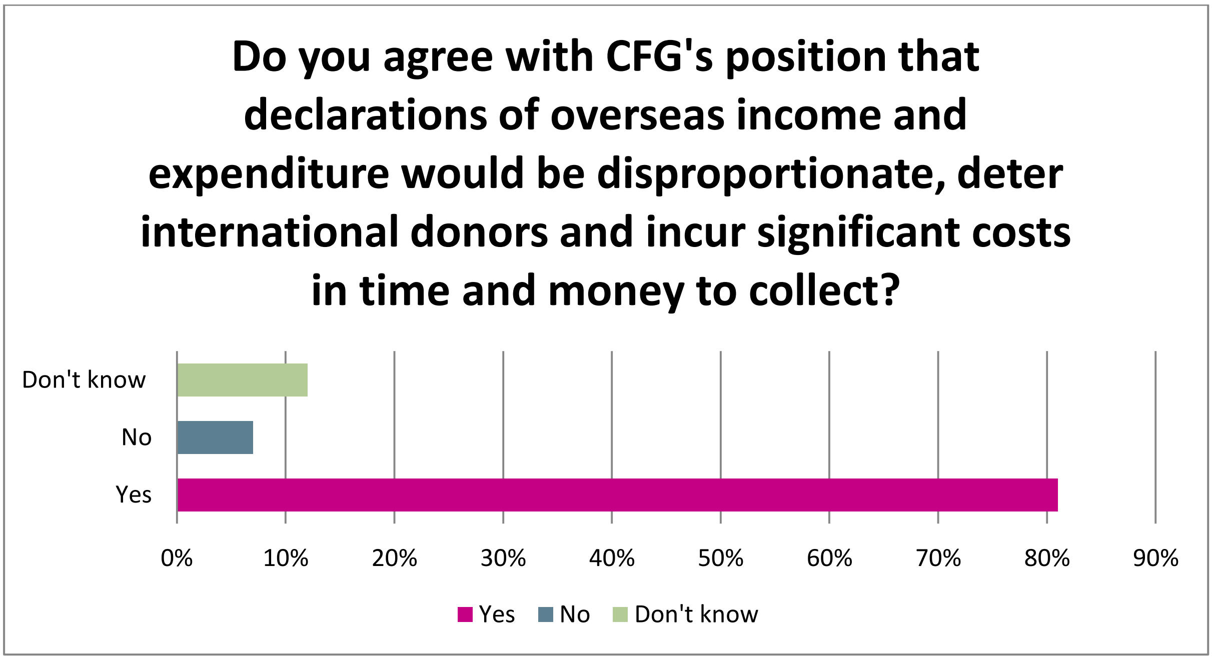
This information will also be challenging for charities to provide in the format required by the Charity Commission. Although charities will be keeping records of their income and expenditure, they are unlikely to do this by nationality or source of funds. Additional guidance would need to be provided on how to decide on what the "source" of funding is for the purposes of the Annual Return. For example, is money given by a UK national based in France via an Irish Bank from the UK, France or Ireland? How do you account for dual-nationals or where organisations are based in more than one location?

The fact that there is no *de minimis* will also create significant administrative difficulties for charities. We would recommend that the Charity Commission introduces a *de minimis* for this information, which would need to be high in order to reduce the disproportionate time being spent on checking information. However, the introduction of a *de minimis* would undermine one of the reasons behind this question being proposed and we understand from the Charity Commission that they are concerned about relatively small sources of funding as terrorist attacks can cost only a few hundred pounds to prepare.

As the issue of a *de minimis* shows the impracticality of this measure. Any reporting requirement is likely to be self-defeating because whatever format or method the Charity Commission chooses; terrorists or abusers of charities will seek to get around it either by changing the way that they transfer resources, by routing their money through "low risk" countries or by exploiting ambiguities in the rules. If the Charity Commission does show flexibility on data collection, it is undermining one of the main reasons to ask for the information. If it doesn't show flexibility, it is creating a disproportionate impact on the charity sector with little evidence provided for its necessity.

The significant cost of introducing this measure, combined with the lack of information about the need and the practical difficulty in applying the question as well as the likelihood that this question will not be effective either in deterring terrorists or abusers of charities means that we cannot support the introduction of this question as it currently stands.

A case could be made through a more limited question, using the more dynamic format of the Annual Return, to highlight a few countries which are "high risk", but this would need to be decided on a case by case basis and it would need to be underpinned by evidence that there is a significant risk from funding coming from these countries. Such evidence has not been provided so far. The cost of this measure could further be reduced by only focusing on institutional donors rather than individuals, although it would arguably undermine its utility to the Charity Commission.



As can be ascertained by the bar graph above, respondents to our survey agreed with CFG that the question on income should not be introduced. We also believe that this issue opens up the question as to whether the current information on expenditure overseas is relevant or proportionate. Again, it could be argued that in a few countries such information may be useful for risk analysis, but it would need to be underpinned by strong evidence. 70% of respondents said that this question would cost them additional time and money in collection, so the costs to the charity sector will not be insignificant.

We welcome a decision by the Charity Commission not to publish the data. However asking for this data could create the impression that the UK charity sector is not open to donations from overseas or views them as suspicious which could deter international donors. As a consequence, we believe that there could be a financial cost as well as a regulatory cost to the charity sector from the introduction of this measure.

We do not support the introduction of a question on the sources or value of income from overseas. The question is a disproportionate burden on charities and efforts to make it more proportionate are likely to undermine its utility and therefore the point of collecting the information in the first place. The Charity Commission also risks undermining the international reputation of the UK and the good work that it has done to support civil society around the world. The lack of evidence presented for the need for this information, alongside the cost and the risks, mean that the Charity Commission should not introduce this question.

Transferring money overseas

We support efforts that the Charity Commission has made to understand the “de-risking” phenomenon that has negatively impacted on the charity sector. We know that efforts to better understand this issue are behind the thinking of an additional question to the Annual Return on the methods of transferring money overseas. We also recognise that working outside of the formal banking system can involve a degree of risk, although not necessarily high risk, depending on the circumstances.

As above, we are concerned that these questions are not in keeping with global standards on money laundering and counter-terrorism financing. The Financial Action Task Force (FATF) changed Recommendation 8 on Non-Profit Organisations. We also note that the latest National Risk Assessment has said that terrorist financing abuse or money laundering risk is “low” for the sector as a whole. Although some areas may face higher risks, this is more due to the nature of where they are work (in fragile environments) rather than because of how they carry out their activities.

We have not seen evidence presented by the Charity Commission in the past that is concerned about charities using online platforms such as PayPal or Money Service Businesses (MSBs). Although we recognise that that some MSBs can be high risk, we do not have evidence to suggest that charities are using smaller MSBs. Most charities will be using well established organisations such as Western Union. As a consequence, asking charities to provide information on online platforms or MSBs would be disproportionate and would not create a clear picture of risk. Collecting information on online platforms such as PayPal would also be significantly challenging, as this is not information that charities currently collect. We would also need a more effective definition of what an online platform is. Given the sheer range of online platforms, it may be hard to give a figure with confidence.

On the other hand, we do not recognise that there cash couriers are risky and the use of cash puts both charity resources and staff at risk. Although in some circumstances it can be necessary because of a lack of financial infrastructure in countries where delivery is taking place, risk needs to be managed appropriately. In consultation with the Charity Commission, we understand that "informal money transfer systems" refers to concerns about the use of Hawala. Hawala is higher risk than formal banking channels, and we can see a need for more information about the use of these channels.

When we asked charities, 70% agreed with our position that this question should be retained but limited to cash couriers and with a follow up question about whether charities had a policy in place to manage the risks caused by use of cash couriers. We would be open to extending this to cover Hawala. On a practical level, we believe that more work needs to be done to clarify the question so that charities are clear what cash couriers are and what is a "informal money transfer system". We believe that our proposal would make the question more targeted and give more practical information for the Commission whilst reducing its cost.

We support the introduction of a question on how money is transferred overseas but it needs to be better targeted at the most pressing risks, such as cash couriers and Hawala rather than trawling across a range of systems. A more targeted question with better wording and a prompt for charities to consider whether they have a risk policy in place would have practial benefit for charities and the Charity Commission.

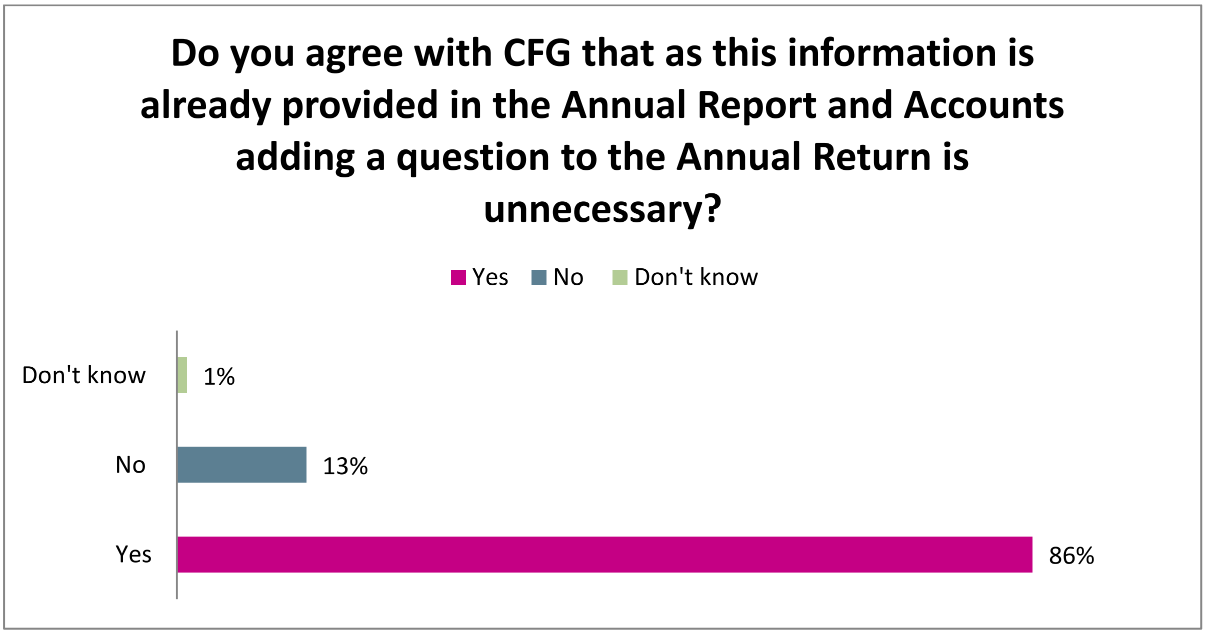
Senior salaries and CEO pay

We are concerned about the introduction of questions on senior salary and CEO pay for a number of reasons. Firstly, this information is already provided in the Annual Report and Accounts and the better use of technology could collect this information without the need for charities to manually input the information. We are concerned that by using the Annual Return in this fashion, the Charity Commission is avoiding the bigger issue of how data should be collected using technology.

Secondly, a number of members and auditors have raised concerns that this information will be separated from the Annual Report and Accounts where charities are required to give their remuneration strategy and approach to executive pay. We are worried that by providing simplified numbers in the Annual Return and making them public, the Charity Commission is undermining the Annual Report and Accounts.

Thirdly, we are not convinced about the public interests case for publishing this information. We know that some parts of the media are interested and that members of the public are concerned about executive pay. However, the fact that people may want information doesn't mean that it should be collected or provided to them. In our discussions with the Charity Commission and in the consultation document, there are no reasons given as to why this information would be useful or how it would enable the public to hold charities to account. CEO or senior salaries on their own do not measure performance effectively. We are concerned that by introducing this question, even if it is not made public, the Charity

Commission is simply fanning the flames on this issue rather than encouraging a broader conversation about the effectiveness of the charity sector.



As noted from the survey responses above, charities broadly agreed with our position. Moreover, there was a similar level of opposition to asking specifically about CEO pay.

Whether this information is collected for regulatory purposes or not, there was almost universal opposition to it being published in isolation from the Annual Report and Accounts. 93% of respondents said that they did not wish information on salaries for staff or CEO to be published online.

Whilst we support transparency, we do not believe that a case has been made for why this question should be included. Better use of technology, such as iXBRL, would enable this data to be taken from the accounts without the need for charities to manually input it. We are also concerned that using the Annual Return to publish this data will under the Annual Report and Accounts and encourage people not to read the context that goes alongside payments to staff. Moreover, there is a wider issue about whether this information is useful at all for the public when it comes to understanding the work of the charity sector. The Charity Commission should show leadership on this matter and move the discussion on rather than encouraging a fixation on executive pay.

Payments to trustees

We do not oppose the introduction of additional questions on payments to trustees. We did not find any significant opposition amongst respondents to our survey and we can see that there is a need for the Charity Commission to regulate this activity in case there are any unintended breaches of charity law. We know from our own work that many trustees do not fully understand their legal responsibilities, so there is a chance that trustees will not fully understand the rules around paying trustees.

We also do not see any reason why this should not also cover ex-trustees who are now members of staff.

The majority of respondents to our question said that they were comfortable with this information being made public to aid transparency and a majority did not believe that this would involve additional commitment of time or money.

We agree with the introduction of this question and have no objection to the information being made public.

Business rates

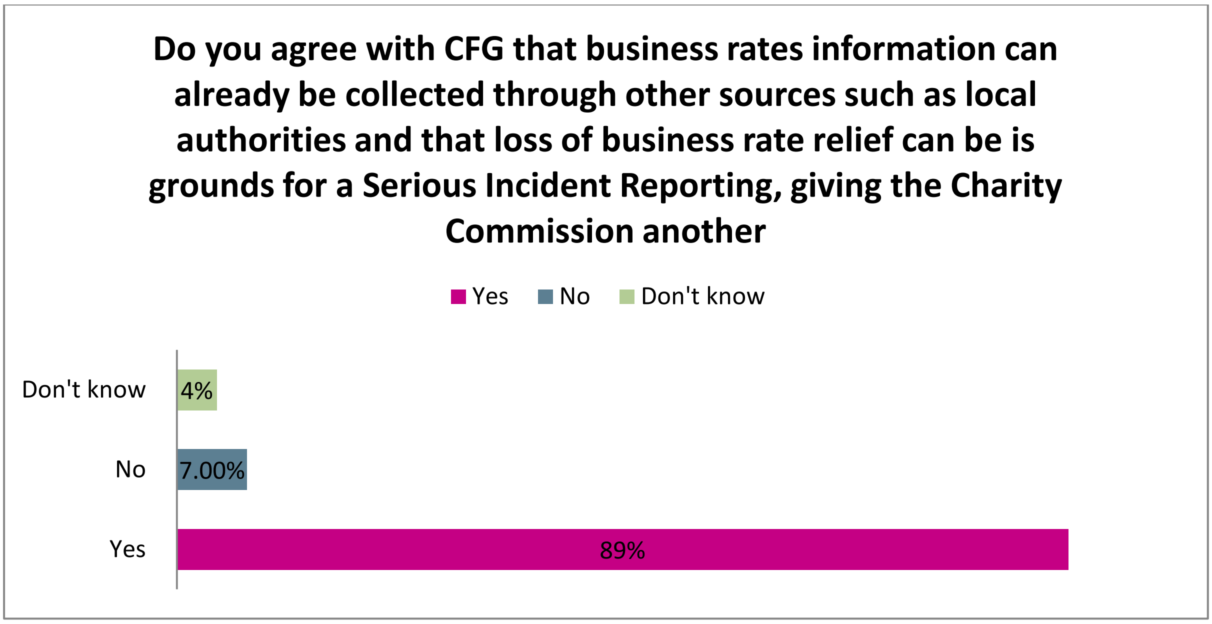
We are concerned about the introduction of a question on whether charities receive business rate relief.

Firstly, we do not understand why this information is being collected. Although there have been a couple of cases of abuse of business rate relief by companies, we do not believe that this is a significant risk for charities. There is a danger that by collecting this information, the Charity Commission feeds unwarranted concerns about the robustness of business rate relief. We know that in the past local authorities have raised concerns about abuse, but as we have raised in our responses with government, concerns around this are disproportionate to the evidence provided.

Secondly, we believe that this information can already be sought via freedom of information requests or data sharing by the Charity Commission and Local Authorities if it is necessary for collection. Again, we are concerned that the Charity Commission is avoiding engagement with other data holders and increasing the administrative burden on charities. The Charity Commission should discuss this with the Department for Communities and Local Government and the Local Government Association, before it commits to making charities provide the data.

If engagement with other bodies is too resource intensive for the Charity Commission to undertake, it does beg the question as to whether it will have the resources to effectively analyse the data provided to it by charities.

We agree with the Charity Commission that this information should not be published, as it does not add value to an understanding of the charity sector.



We found that our survey respondents were broadly in favour of our position. We found very little support for the question amongst charities or advisors. 67% of respondents said that this would cost additional time and money to collect and report.

We disagree with the introduction of this question as we do not believe that there is a clear rationale for its introduction and it could damage the reputation of charity business rate relief which is vital to the charity sector. If this information is necessary, we believe that there are other ways that it could be collected that do not create significant burdens for charities. These must be investigated before any decision is made to force charities to report such information via the Annual Return.

Trading subsidiaries

We have no objections to further questions being asked about charities and trading subsidiaries. Our survey respondents overall did not object, although a large number of charities said it would incur additional costs for them in time and money. Respondents were split on whether this question should be expanded to cover other organisations which have a close link to the charity. We have no found any reasons to object to a wider pool of organisations being included in the definition.

We support the introduction of this question and do not have an objection to this information being published.

Safeguarding

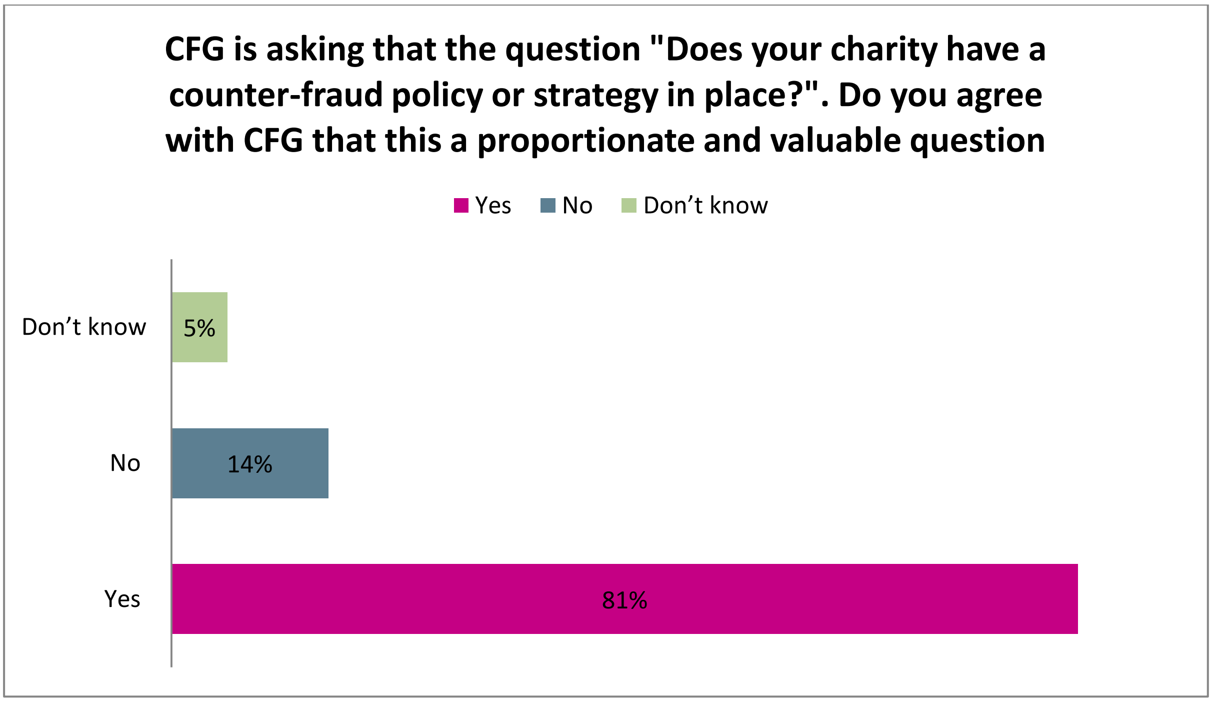
A majority of respondents to our survey were in favour of additional disclosures on safeguarding, although a majority did not wish to see these disclosures made public. A majority of charities said that this would cost them additional time and money in collecting this information. Charity Finance Group does not have a strict position on this topic, and we would have no objection to this information being collected.

We do not object to this information being asked for in the Annual Return although we believe that given its sensitive nature, this should not be made public.

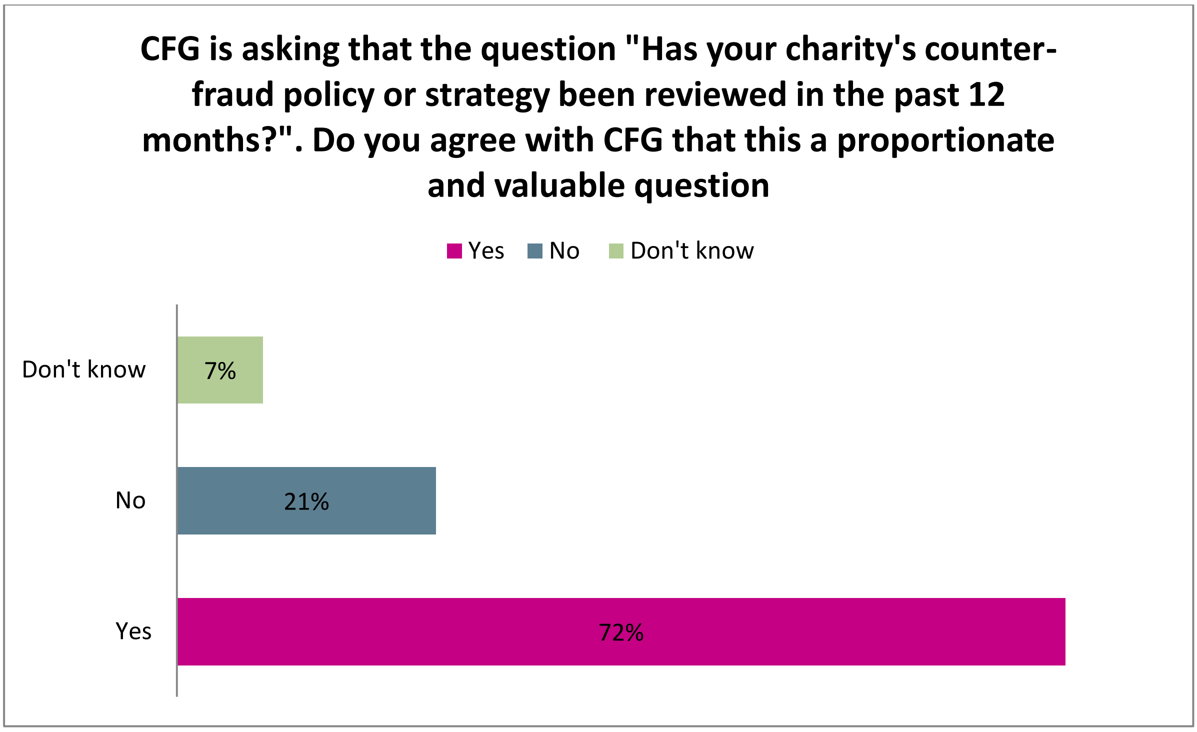
Countering fraud in charities

Despite countering fraud being a strategic risk to the charity sector according to the Charity Commission's consultation, there are no additional questions planned on fraud in the Annual Return. This follows the Annual Fraud Indicator increasing the amount of income lost to the charity sector via fraud from £1.9bn to £2.3bn. It is important that we take action to increase the resilience of the charity sector to fraud.

We asked charities whether they would support the addition of a question on whether charities had a counter-fraud policy or strategy in place. The vast majority (81%) agreed with the introduction of this question.



We also asked whether charities agreed that an additional question should be added to the Annual Return on whether these policies or strategies had been reviewed in the past 12 months. Best practice indicates that strategies need to be regularly reviewed to take into account changing risks. We believe that this question has the potential to nudge charities in the right direction. Overall charities were supportive of this measure being introduced into the Annual Return, as indicated by the survey responses below.



Research from the Centre for Counter Fraud Studies at the University of Plymouth has indicated that through active measures, losses to fraud can be reduced by as much as 40% within 12 months - a relatively short time-scale. This has been achieved in other sectors such as the NHS, which reduced its losses to fraud by 60% over a 2 year period. The Charity Commission should consider how it can nudge charities in the right direction to take countering fraud seriously, and build on the work that it, and the rest of the sector has already done to raise this issue.

We urge the Charity Commission to consider carefully the additions that we have proposed which are in line with its own strategic priorities and one of the biggest risks facing the charity sector. We are happy to engage further on the wording of any potential question to ensure that it is both proportionate and useful.

Conclusion

We welcome efforts to improve the structure and format of the Annual Return so that the questions are more targeted and follow a logical process. However, we are concerned about a number of additional questions which do not appear to have an evidence base behind them and would incur further costs for charities.

As a number of respondents have highlighted to us, at a time when charities are finding it harder to generate income and when they are trying to meet increasing demand, further reporting burdens would be unwelcome. Moreover, the Charity Commission's own research on trustees found that trustees for smaller charities find the job less rewarding than those at larger organisations. Some of this is likely to be because of increased reporting requirements which occupy a significant amount of their time.

The Charity Commission must act in a proportionate manner. It must re-engage with the sector once decisions have been made on the questions proposed in this consultation so that we can get the right wording. It must also be sensitive to the cost of compliance at this challenging financial time for the charity sector. It must not ignore the bigger question about the relationship between the Annual Return and Annual Report & Accounts. We look forward to continuing to engage with the Charity Commission on these issues, and others.