

Via email:  
informationstrategy@charitycommission.gsi.gov.uk

12 August 2014

Dear Sir,

### **Charity Commission: Annual return for 2015 – information collected from charities**

I am pleased to submit the Institute's response to the above consultation and trust the comments are useful to your deliberations on the Commission's development of the annual return and information displayed.

#### **About ICSA**

The Institute of Chartered Secretaries and Administrators (ICSA) is the professional body qualifying and supporting company secretaries and corporate administrators in all sectors of the UK economy. Members are educated in a range of topics including finance, HR, company law, administration and governance, which enable them to add value to any organisation.

ICSA is a leading international voice on corporate governance and delivers a professional education that gains its strength in the breadth of the syllabus; designed to assist boards and work with senior managers to identify and maximise opportunities within relevant legal frameworks and established best practice.

The Institute has some 10% of UK Members directly employed in the not-for-profit sector, with many more involved on a voluntary basis in capacities such as trustees and school governors. In formulating the Institute's response to the above consultation document, Members covering large multi-million pound charities to small, local organisations were approached for their views given the depth of their knowledge of the sector, complying with relevant legislation and the importance of sound governance arrangements in effecting a change within the communities they operate.

#### **General comments**

The information currently requested is generally sufficient for the purposes of the regulator and the public. As a general principle, ICSA would recommend that information only be collected where there is an identified need for it and that is put to a specific use. All questions relating to the regulatory annual return should be limited to those questions the Commission seeks answers from in order to perform its regulatory functions. Any further voluntary information can be posted on the charity's own website or any future option to add information to their register entry.

Some of the questions detailed below ask for information that can already be found within various documents of well governed charities. For those charities with no staff, or operating on a more informal basis, gathering such information is likely to present some increased workload. In some instances, this will be beneficial to the charity in improving their governance arrangements. For others, the information requested will be disproportionate to the size and scale of the activities undertaken. Due time will be required to enable trustees to discuss the information required and collate the data collected.



While ICSA appreciates that the information detailed below is of interest to the regulator, sector commentators, funders, beneficiaries and the general public there must be a balance that such measures are effective and proportionate. We are also keen to promote transparency within the sector as a means of encouraging charities to provide a better narrative to the public as to what they do and how they spend their resources. There is a growing call and need for charities to engage more proactively with the general public to explain what they do, how they are funded and the positive impact they make on society. The proposals detailed will help provide an interesting insight into the diversity of the sector, the size of charities, their funding and staffing. It is suspected that the information revealed will challenge some misconceptions, which in turn should provide a basis for improving knowledge of the sector.

## **Response to consultation questions**

### **Q1. Do you agree with the proposal to introduce a question into the annual return to ask how much of a charity's total expenditure has been on campaigning activities?**

Given recent media, and political, interest in the campaigning activities of larger charities it is unsurprising that this proposal is being consulted on. Charity campaigning activity is always going to be of interest to the public and commentators, especially in the run up to elections and referenda.

The diversity of the sector, however, means that not all charities will undertake campaigning activities in the terms generally understood by the public. That said, to some people a charity writing a letter to their MP or local authority could be construed as campaigning. It is therefore essential that the final guidance contains a definition that is sufficiently robust to facilitate a reasonable comparison of the information provided, but it should not deter any charities that may wish to undertake campaigning activities. Any ambiguity in the definition will lead to different interpretations of campaigning activities and render the proposal to better inform the Commission and the public of the sector's activities as seriously flawed. If the proposal is to better understand the degree and scope of campaigning in the sector, the drafting of the definition of campaigning will be essential to ensuring that the resulting information is comparable and relevant.

Given that the majority of registered charities are small entities with no staff, it would be beneficial to provide sufficient time to enable trustees to prepare for the requirement to discuss, define and detail the information required to answer this question. For many, it is suggested that, the question will be largely irrelevant as they will not undertake any campaigning activity, unless the definition is so broadly defined.

### **Q2. Do you agree with the proposal to introduce a question to the annual return to ask how much of a charity's income was received from public service delivery and/or private donations?**

This information should provide the public with a better understanding of how the charity generates its income. To aid the public's understanding, however, will again require a definition for each type of income listed.

Given the Commission's recent research on public trust in the sector, this question should generate interesting figures as to the proportion of registered charities that deliver public services and those that are very much dependent on private donations. The resulting data, should therefore, contribute to improving knowledge about the sector's activities and provide a narrative about the diversity of the sector that can challenge misunderstanding or misconceptions about the way the vast majority of charities operate.

**Q3. If we did introduce the questions set out above is it feasible for charities to provide this information for the annual return for 2015, or should we wait to introduce the question in the annual return for 2016?**

As many registered charities do not employ staff, it will be for trustees to read and understand the amended requirements before discussing and agreeing appropriate governance changes to be in a position to provide the information requested. It is therefore highly unlikely that charity trustees would be able to make the appropriate changes to provide the information in the annual return for 2015. A target introduction date of 2016 appears to be the more feasible.

**Q4. Do you agree with the proposal to ask whether a charity has a written policy on remuneration of executive staff ?**

In light of recent media coverage regarding this issue, and NCVO's commission into executive pay, this proposal does not seem unduly burdensome. For most registered charities that do not employ executive staff members the question will be irrelevant. For larger charities, the ticking of a box will be fairly simple. Of greater interest to the public and commentators however, would be whether the charity had reviewed the policy recently and details as to where the policy could be viewed by the public.

For the sector to improve its discourse with the public and improve understanding the executive remuneration policy should include:

- an explanation of how the remuneration policy is explicitly linked to delivery of the charity's objects in alignment with organisational strategy
- an acknowledgement of external and internal economic environments and how these are factored into pay policy
- how risk management and regulatory changes have affected remuneration policy/practice
- how alignment with the objects, the needs of beneficiaries and with the desired culture throughout the organisation is achieved through remuneration
- a clear explanation of any changes in policy and practice and/or use of discretion (if applicable)
- evidence of meaningful and comprehensive disclosures relevant to the charity and its particular circumstances.

It is likely that the information generated will be of more note because of the sheer numbers of charities that do not employ executive staff members.

**Q5. Do you agree with the proposal to introduce a question into the annual return for 2015 to ask if a charity has carried out a review of its financial controls during the reporting year?**

For those charities that do not employ staff or do not have direct access to an appropriate professional to provide guidance on the matter, it is unlikely that trustees will be able to perform an appropriate review of financial controls for their charity and the activities it undertakes for the 2015 annual return.

Greater clarity is required as to what is meant by a financial review: a thorough test of all or individual aspects of a charity's financial controls or a run through the CC8a checklist? Both approaches will provide challenges to smaller charities. Larger charities that employ staff are less likely to struggle with the proposal. Proportionality will therefore be key to the success of this proposal along with appropriately detailed guidance.

**Q6. Do you agree with the proposal to ask charities with incomes between £10,000 and £50,000 to provide some financial information through the annual return?**

For charities currently producing payment and receipt accounts, the proposals above will necessitate a change in their accounting procedures. It is therefore to be seen whether the proposal is proportionate for those charities that do not have ready access to an appropriately qualified and experienced professional to advise on accounting requirements. The more time available for trustees to understand and prepare for the changes will be beneficial if the Commission is to gather data that is easily comparable and reduces the possibility of misunderstanding and teething problems.

It is hoped that the above comments are useful to you in your deliberations relating to the development of annual returns. Should you wish to discuss any points in further detail, or how ICSA may be able to assist you in your endeavours on this topic, please do not hesitate to contact me.

Yours faithfully,

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