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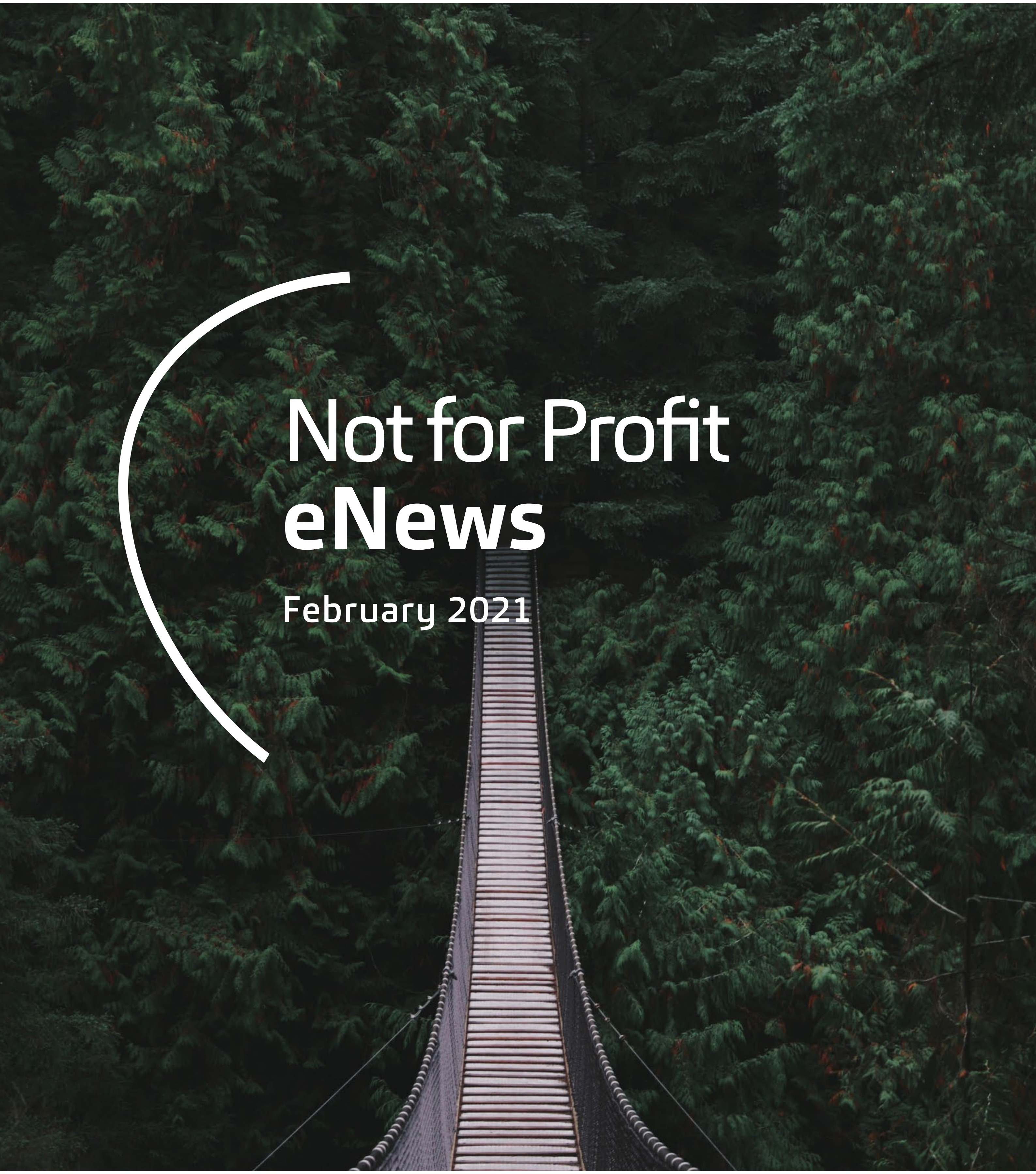


Not for Profit **eNews**

February 2021

Now, for tomorrow

mha

An independent member of bakertilly INTERNATIONAL

February 2021 eNews

Welcome to the latest edition of eNews for 2021 from MHA.

We have started 2021 with another National Lockdown which will bring additional uncertainty to the operations of many Not for Profits throughout the UK. There is an air of familiarity as we yet again adapt to these challenges, but hopefully we can reflect on some of the lessons learnt and positives that have arisen from the adversity of 2020. As we look ahead, there is undoubtedly significant and overwhelming levels of uncertainty but no doubt the sector will be resilient, diverse and ingenious in fighting for the causes it is so desperately needed for.

In this edition we look at ways in which Covid-19 has ongoing governance implications as well as looking at research on the trends emerging for charities due to the economic downturn. There is potentially welcome news regarding the business interruption insurance following a Supreme Court decision and a statement from the fundraising regulator in relation to lockdown restrictions.

We also report on the Charity Governance Code refresh as well as insights following the Charity Commissions' recent report on the RSPCA. We examine the latest review regarding pension deficits and what financial statements need to include.

If there are any topics within this edition that you would like to talk to us more about, please do get in touch.

Best wishes,

MHA Not for Profit team

COVID-19 Governance Implications

COVID-19 has had a significant impact on the way that every business, charity and public sector organisation has operated since the outbreak earlier this year.

Whether working from home, furloughing staff or making difficult decisions regarding staffing, finances and operations, the impact has been felt at all levels within all organisations. As organisations deal with day to day challenges it is easy to overlook governance arrangements. Accordingly, there is a risk that that the right level of scrutiny and challenge has not been applied to critical business decisions. We highlight below some of the potential areas where your governance could be failing and how to address this.

Are the right people making the right decisions:
The move to a remote working environment brings with it a temptation for decisions to be made in silos, without the right people being involved in the decision making process. Whilst staff may no longer be based in a single location, this should not mean that decisions cannot be made following the standard approval processes. It is therefore essential that the right people are involved in making the right decisions at the right time, and evidence of such decision making is recorded and retained.

Compliance with regulations:
Your financial regulations and scheme of delegation should clearly set out the authority levels by which decisions should be made, especially in respect of the financial approval limits. Whilst the responsible individuals may no longer be together in the same place, this does not provide a reason for financial regulations to not be followed. Indeed, given the impact on people and resources that COVID has had, the level of scrutiny applied to each key decision should if anything, be higher, not just considering the immediate impact of any decisions made, but you may want to consider what impact this could have on the medium and long term future of the organisation.

A virtual meeting is still a meeting:
The majority of Board and Committee meetings have moved to an online environment. This does not however negate the need for agendas and minutes to be produced, and for these minutes to form an accurate representation of the discussions held and decisions taken. The use of some of the video recording functions in tools such as zoom should assist committee secretaries in ensuring the content of meetings is accurately recorded (subject to the consent of all of the attendees) which can then be utilised to ensure that accurate meeting minutes are produced. Given that it is highly likely that at least some meetings will continue to take place online post COVID, it is an important discipline for organisations to get into now.

We have seen some great examples across our client base of how the use of virtual meetings has led to a more frequent and agile decision making process, taking advantage of the benefits gained

Where is the assurance:
2nd and 3rd line assurances provide a key role in providing the organisation, via its audit committee, over the operational effectiveness of controls that manage the key risks. Whilst there may be a temptation, when times are tough, to look to reduce the level of independent assurance as part of a cost saving measure, in reality this could lead to increased risk, higher costs and damage to reputation through not identifying errors or threats in a timely manner. If there does need to be a reduction in the level of independent assurance then it is important for the effect of this reduction in assurance to be assessed. Consideration should be given to alternative forms of assurance such as increased internal peer review or the mobilisation of Trustees to perform additional layers of oversight.

Looking to the future
Throughout the pandemic or any other time of crisis it is important to continue to consider the future, including what your future forms of governance and management structures need to look like and how they should operate. Some of the organisational changes and transformations that have taken place over the last 12 months may represent an enhancement on past practices and it is important for such changes to be formalised into future structures and processes to maximise the benefits that could be gained from them.

If you have any questions in relation to any of the above, or would like an opportunity to discuss your current or future governance arrangements with us then please do not hesitate to get in touch.

COVID Charity Survey

What are the trends emerging for charities due to the economic downturn

Pro Bono Economics has been tracking charities throughout the pandemic, to understand the pressures on finances in relation to the recession caused by COVID19.

The background is that Covid has created the worst recession on record. The number of employees on payroll has already fallen dramatically and the Bank of England forecasts the peak in unemployment is unlikely to be reached until the spring or early summer of 2021. There is increasing concerns about the social scars the UK is accumulating, from mental health and isolation to domestic abuse and fraud.

> Charitable and voluntary organisations are a key component of dealing with the social trauma over the months and years ahead. ”

Yet these organisations are under substantial pressure.

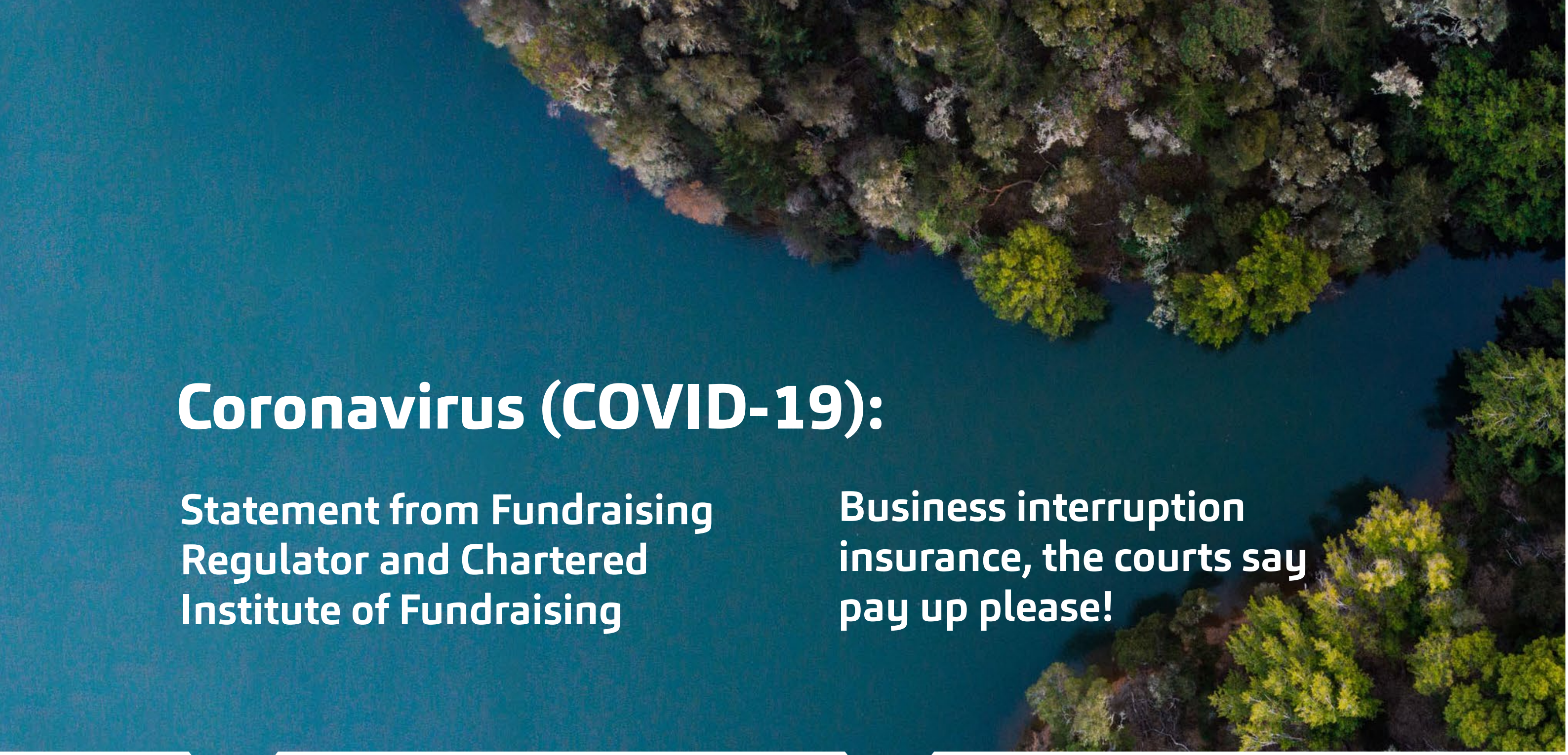
The survey, summarising the latest position to November 2020, reveals that Charities are experiencing rising demand, with 63% reporting they currently face higher levels of demand compared to last year – and 15% facing more than 25% higher demand.

The review has identified five separate – though deeply interconnected – fronts through which this demand is likely being driven:

1. **Pre-pandemic problems:** the ongoing sources of rising demand charities were experiencing prior to Covid
2. **Direct covid consequences:** the immediate increase in, and intensification of, demand resulting from the pandemic
3. **Build-ups and backlogs:** the pent-up demand that has not been serviced as a result of social distancing requirements, some of which has intensified the need as a result of the delay
4. **Crisis spillover effects:** the ongoing increases in demand that result from the worsening economic situation
5. **Shrinking supply:** the transfer of demand as a result of other service closures or cuts.

For further information on the reports detailed findings, please click here. Highlights include:

- Demand for services increasing
- Around two-thirds of charities have less than 6 months of reserves
- Over 90% of charities expect income to be reduced over the next 12 months
- Over 75% of charities expect it to take more than a year (or longer) to return to pre-crisis income levels.



Coronavirus (COVID-19):

Statement from Fundraising Regulator and Chartered Institute of Fundraising

> In line with the restrictions enforced by UK government, calling for another National Lockdown, the Fundraising Regulator has called for new tighter restrictions introduced across all four nations."

With new tighter restrictions introduced in England and Scotland, and continuing measures in Wales and Northern Ireland, the Chartered Institute of Fundraising and Fundraising Regulator advise that any charity fundraising which involves contact with members of the public cease where the highest levels of restrictions apply (for example, the closure of non-essential shops, gyms, and schools).

Throughout the pandemic, charitable fundraising has adapted and responded to changing national and local restrictions in order to protect the public and fundraisers, and organisations have carried out fundraising activity in a safe and responsible way. As restrictions are reviewed in the future, the regulator is committed to working together with the sector to ensure a safe return to fundraising.

The links to further guidance in each of the devolved nations can be found at the following links;

England • Scotland • Wales • Northern Ireland

Business interruption insurance, the courts say pay up please!

A recent decision in the Supreme Court in early January 2021 has given a lifeline to many UK charities and organisations in a battle over COVID-19 insurance cover, after the court dismissed appeals by insurers.

So it might be worth contacting your insurer again if your charity was refused any business continuity insurance claim.

> Around 370,000 organisations could be affected by a ruling, part of a test case looking at firms' entitlements to payouts over the impact of government lockdown restrictions."

Many hospitality and other organisations found themselves denied cover under their business interruption insurance policies for substantial losses suffered during the pandemic.

The Financial Conduct Authority (FCA), Britain's financial watchdog, brought a legal test case on behalf of many firms last year, in a bid to clarify how policies should apply. The High Court ruled in the case in September, but its mixed verdict failed to hand either side a clear victory and parties on both sides lodged appeals on different points.

This latest decision provides much better outcomes for many organisations, as it dismissed appeals by six insurers but "substantially" upheld ones lodged on behalf of policyholders. The insurance industry now expects to pay out £1.8bn for all pandemic- linked claims, including those affected by this case.

However a note of caution was given, asking organisations to check the small print of their policies. The "powers that be" have indicated that they want to see insurers get on with this and to make payments quickly to those organisations where a payment is due.

Leadership and Governance of Charities:

Lessons to be learnt from RSPCA

There has been a recent news release from the Charities Commission detailing the changes made in the way the RSPCA is led and governed.

There are key elements to the regulators findings that are important to consider for all charitable organisations. The areas highlighted by the Commission as cause for concern were:

- Frequent changes in leadership
- Sustained reliance on Trustees acting as interim CEO
- Large size and number of members
- Long appointment terms of council members
- Extent of knowledge, skills and experience of trustees
- Excessive involvement of council members rather than delegation of responsibilities to executive and staff.

A regular self assessment of the governance arrangements of your organisation is imperative. Many charitable organisations adopt the Charity Governance code. The code offers a great opportunity for an organisation to enhance its governance arrangements. The code is not just about ticking a box, it's about attitudes and culture, whether a charity puts its values into practice. It's about how trustees make decisions and how well they understand what's going on. Everything in good governance should point to your mission and your strategy for achieving it. We are strong advocates of the Code and good govnerance.

We have a number of free resources available on our resource portal for trustees and charitable organisations, the MHA Trustee Hub.

Governance Code Refresh

In December 2020 the Charity Governance code was refreshed by the Code's steering group which is committed to continually improving the Code.

The changes to the code have been made to reflect the changing needs and expectations of its stakeholders. The key charges are to Principles 3 and 5 which were Integrity and Diversity.

Principal 3 has been enhanced to make reference to ethical principles ensuring that the charity's values are upheld. There is a direct link to the NCVO's code of ethics, strongly advocating its adoption. There is also a new section on safeguarding.

Principal 5 has now been renamed, Equality, Diversity and inclusion (EDI). Enhancements to this Principal include making sure there are clearer outcomes and ensuring that EDI principles are imbedded throughout the organisation. It also sets out a recommended journey or path that the board might take to make progress in this area rather than racing towards a result which may lead to tokenism or more harm.

SPOTLIGHT ON

MHA Trustee Hub

Go to hub

Pension Scheme Deficit Considerations

The Charity Commission has recently announced that charities need to be more explicit when disclosing pension scheme deficits.

Following the collapse of some substantial businesses whose failure to manage a pension deficit led to an ultimate failure, the Commission has undertaken a review of 100 charities' financial statements to review the disclosures and adequacy of considerations of the valuations.

Most charities were found to be handling this risk appropriately, however even where the risk was being well managed, they found most charities did not report the matter in enough detail in their annual accounts and trustees' annual report.

The commission has detailed the steps a charity needs to take when there is a defined benefit pension scheme in place this includes:

- obtaining the actuarial valuation(s) as they become available;
- considering the implications to the charity's finances from the latest available actuarial valuation(s);
- reviewing the charity's ability to continue to deliver its charitable objectives by ensuring:
    - annual budgets and multiple year forecasts/plans are available
    - trustees receive a going concern analysis monthly, showing current and projected cash flows, cash assets, availability of other sources of finance and the impact of pension scheme deficit repayments
    - recovery plans are developed
    - cash levels are suitably monitored and managed
    - wider/alternate income sources are explored.
- seeking suitable specialist/professional advice.

The Commission also pointed to the accounting guidance in the SORP which states that Trustees should provide a clear explanation on the financial risks arising from a material pension liability.

This should be covered within the Trustee's Annual Report and the accounting policies and notes to the financial statements. Additionally, larger charities should ensure appropriate disclosure is made on risks and uncertainties arising from these valuations and the impact is has on the organisation.

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MHA Not for Profit Team
A national commitment to charities

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