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Not for Profit eNews

June 2022

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Welcome to the latest edition of MHA Not for Profit eNews.

In this edition we explore the new way in which the Charity Commission will be communicating with Trustees on a more personal level. We also look at the implications of the wider changes to protests/demonstrations that were unveiled as part of the Queen's Speech that could have knock on implications for campaigning charities. We also showcase our Disputed Legacy webinar which was co-presented by law firm BDB Pitmans and the CEO of the Charity Finance Group.

Finally, we take a look at two big issues in the sector, the first being the upcoming triennial review of the Local Government Pension Scheme - in this article we have a pensions expert giving some top tips on how to prepare for your forthcoming valuation. Secondly we highlight the need for charities to be thinking about their ESG policies ahead of forthcoming reforms.

As ever, if there are any points in this issue which you would like to discuss with us in more detail, please do get in touch.

Best Regards,
MHA Not for Profit team

Charity Commission to improve communication with charities by targeting relationships with trustees

Following the publishing of the Charity Commission's 2022/23 business plan this month, the regulators have announced their intention to 'fundamentally shift' the way it communicates with charities, with more of a focus on engaging with individual trustees.

Read the Charity Commission's 2022/23 business plan **here**

A more personalised relationship with trustees will be facilitated by an online portal through which trustees will be able to tailor the communications they receive from, and information about themselves and their charity they share with the Commission. It is hoped that this approach will provide a more personalised relationship with trustees and the charity to create a more effective relationship.

Not only is it hoped that the change in communication will provide a more tailored experience for trustees and charities, but that it will also help drive up compliance with regulatory requirements and increase transparency. This would come with an additional drive to increase the range of data that is held on each charity and improve the ability to analyse such data so that the user experience can be enhanced further.

Campaigning restrictions warning for charities

In last month's Queen's Speech, the Public Order Bill was unveiled which, if passed, would introduce stricter laws on protesting and public order offences which could have an impact on charities' ability to campaign and enact change.

Recently outlined legislation which plans to crack down on protesters who are deemed 'dangerous' and 'highly disruptive' may well have an impact on charities whose activities include campaigning for societal change. **Civil Society** suggest that the legislation appears to target groups such as Extinction Rebellion and Insulate Britain, who have campaigned to raise awareness and draw attention to their causes regarding the need to take climate change more seriously in well-documented but often poorly received ways.

Rosemary Forest of **Bond** (a UK network of organisations working in international development), argues that peaceful protests and campaigning are crucial aspects of many charities' existence and that without such freedom, charities chance of delivering their goals and publicising their messages will be severely impeded. The freedom and ability to peacefully protest is a key part of any democracy, and with the Public Order Bill passing its first reading in mid-May (a second reading is expected at the end of May) it may not be long until this right is constrained. For charities who use mass campaigning and peaceful protest as a tool to gather supporters and raise awareness of their causes, the Bill is likely to be a major concern.

Legacies popularity set to continue to rise

A recent study has suggested that individuals aged between 26 and 40 are more likely than ever to consider leaving a legacy donation to a charity in their will.

Whilst many of the respondents had not yet decided on the destination of their estate, 44% of those surveyed suggested they would consider leaving a legacy in their will, compared with only 9% of those aged between 41 and 55.

The study highlights the increasing importance of legacy donations and it acts as a possible reminder to invest in raising the profile of organisations as potential legacy options. With legacies anticipated to continue to grow in the next decades, this could be a source of valuable income in uncertain times for more traditional forms of fundraising in the wake of the Covid-19 pandemic.

It was noted in the study that traditionally, charities who are legacy focussed will steer their advertising towards the older generations, where the writing of a will may be more at the forefront of their minds. It goes on to explain that since the Covid-19 pandemic, an increasing number of young people have been seen to be thinking of planning for the future and even writing wills, and that if tapped into now, this could secure some long-term funding. There was a suggestion that if charities were to offer a service to aid with will writing this may prompt even more potential legators to leave assets to the charity. This is therefore an area of income which can no longer be neglected by charities.

Last month we held a webinar in collaboration with law firm BDB Pitmans and the Charity Finance Group regarding legacies, disputes and the growing proportion of charities receiving this type of income. The webinar can be watched on demand **here.**

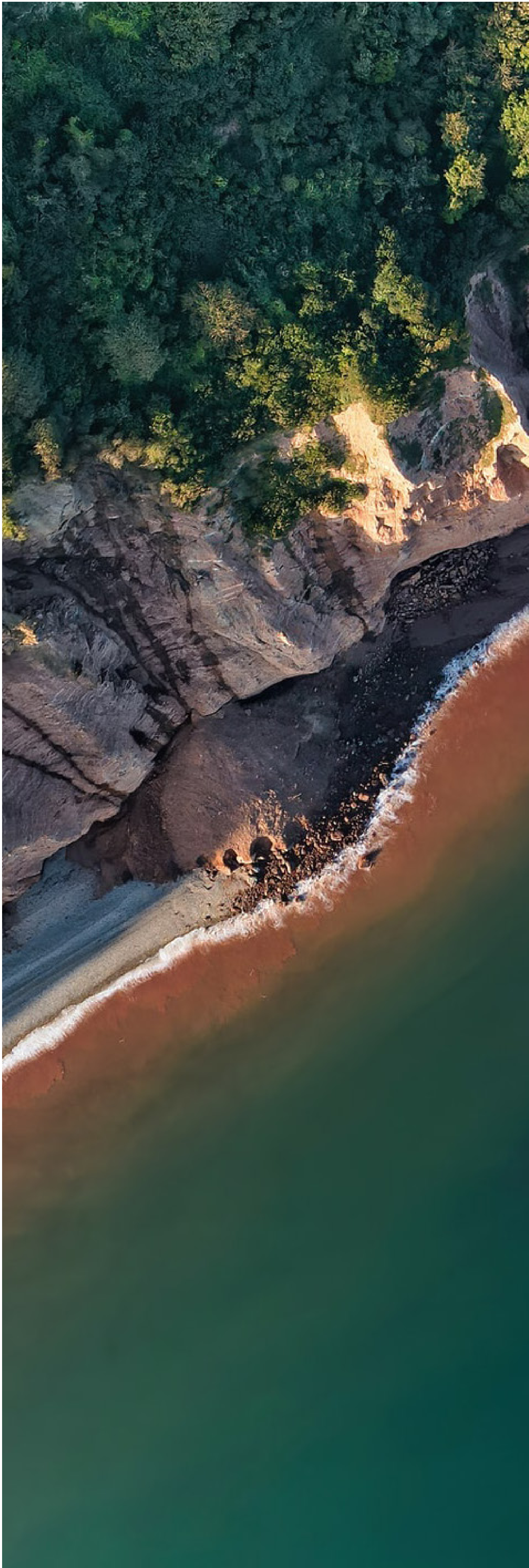
NCVO announces plans to address power and integrity issues in the Charity sector

Some of the highest profile stories and failings in the voluntary sector in recent years have been inextricably linked with the issues of power and integrity, The National Council for Voluntary Organisations (NCVO) argues, but responses to such issues are often siloed, managed by separate teams with limited oversight of the impact these issues have on an entire organisation.

In light of these concerns, the NCVO is set to host a new initiative, **Power & Integrity** (PI), which aims to enable holistic, effective and evolving integrity practice by providing a platform for Not for Profit organisations to share experiences and learnings on the issues of sexism, racism and bullying.

The initiative is set to start with the up to five organisations running workshops to help one another research and test new approaches to power structures and the role that such structures play in each of their organisations. Focus on integrity also highlights the matter as one of the **Charity Governance Code's** key principles, and the need for trustees to address any potential abuses of power in order to uphold the charity's purpose, values and public benefit.

It is hoped that the initiative, which is to be held over a period of 12-18 months, will grow into its own independent non-profit organisation to address the issues mentioned above.



Local Government Pension Scheme (LPGS) valuations – Triennial Valuation

31 March 2022 marked the valuation date for LGPS valuations in England & Wales. Initial results will be available by Autumn 2022 and new contributions need to be agreed by 31 March 2023.

A large number of charities have some exposure to LGPS pension liabilities and for many the liabilities are material. So what can you expect? And what should you look out for? These are the questions we posed to Adam Poulson, a Partner from pension specialists Barnet Waddingham, and this is what he had to say:

"We expect most LGPS funds will have had volatile but strong investment performance over the 3 years since the last valuation which should improve the funding position. Conversely higher price inflation expectations are likely to increase liabilities which may reduce the funding position.

Overall for many funds we expect an improved funding position, which may reduce secondary contributions (sometimes also referred to as deficit reduction payments). However, we expect primary contributions will increase for many employers especially those that have recently stopped accepting new entrants."

Issues to watch out for:

1. **Data –** Is your data right? Check with your LGPS Fund. If your data is wrong then your costs will be wrong. For example a typo of 10 years on a date of birth could change the liability value by 10%.
2. **McCloud –** Now that the implications are clearer LGPS Funds should be allowing for the impact.
3. **Longevity –** Covid has no clear long-term impact. Life expectancy could decrease due to 'long-Covid' or pressure on the NHS. Alternatively, it could increase due to improved health of post-Covid population and medical advancements. At fund level, experience over the period is likely to only have a small impact on funding levels, however actual experience of your membership could be material.

For many employers the membership of the LGPS is a ring-fenced population. In this case the number of employed members will decrease over time as employees retire or leave employment. For ring-fenced populations many LGPS Funds will seek a higher funding target in order to ensure the section is better funded on an exit basis when the last member leaves. This increases cost of both primary and secondary contributions relative to open employers.

Budgeting for the impact of the exit debt is prudent and is likely to be reflected in the secondary contribution rate.

However, should the exit debt fall due quicker than expected there are a few actions you can consider:

1. **Deferred debt arrangement -** the employer remains in the Fund without active members and are deemed a deferred employer. The employer continues to pay secondary contributions for the term of the arrangement and may exit the Fund when they are fully funded on the cessation basis. Under this arrangement as the employer remains in the Fund they are still exposed to investment, longevity and inflation risks which could reduce or increase the final cessation debt
2. **Debt spreading arrangement -** the exit debt is crystallised at the cessation date and the employer agrees with the administering authority a schedule to pay off the deficit over a period of time.
3. **Review the terms** of the admission agreement when first joining the LGPS as it may require the administering authority to cover any exit debt.

A new valuation is always a good time to review the pension funding plans and the options of your educational establishment.

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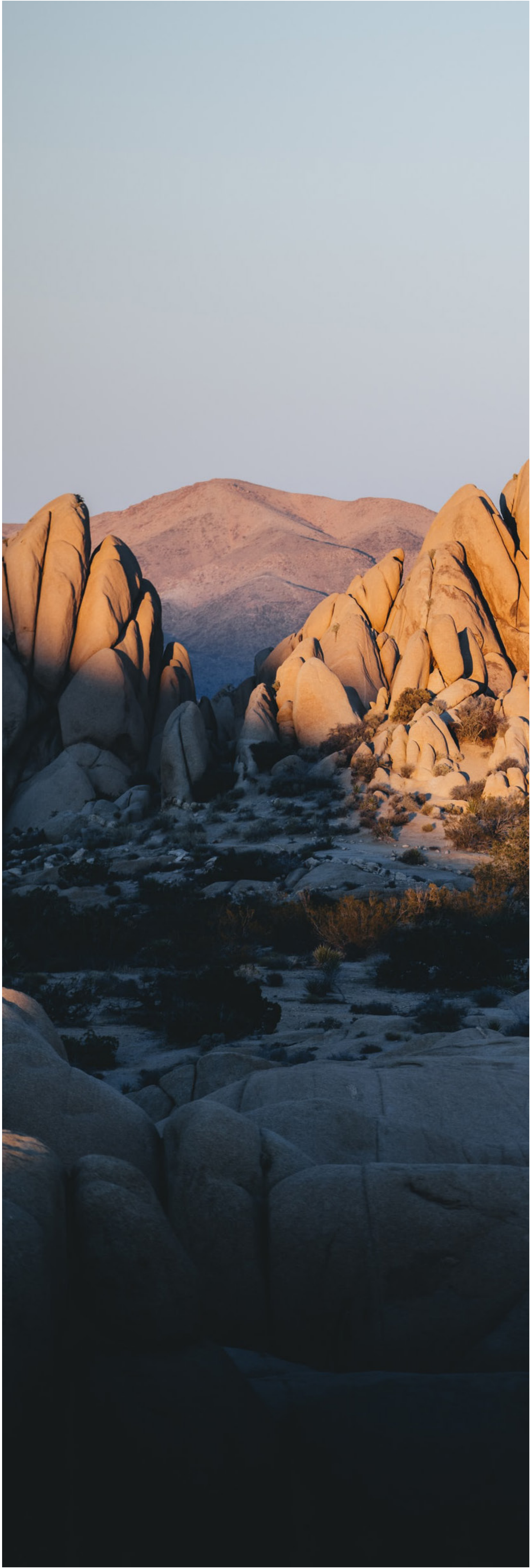
Should you wish to discuss any of the points raise in this article please contact Adam Poulson, Partner Barnett Waddingham

E: adam.poulson@barnett-waddingham.co.uk
T: 0113 394 3748



The Importance of ESG (Environmental, Social & Governance) in the Not for Profit Sector

In their role as exemplars, the Not for Profit tend to lead the way in ESG best practice as it is in their own economic, social and environmental interests to do so.

There are best practice standards where there is a joint commitment to ensuring all staff, beneficiaries and partners regardless of role, discipline & responsibility learn about climate change, social justice, and sustainability.

Put simply, ESG is a set of principles that enables organisations to optimise their primary activities within a sustainable framework. At one level, ESG may be represented by a carbon desktop (evaluating carbon emissions and putting in place mitigating actions - Scope 1 emissions). At another it is the way that staff are valued, treated and supported. These are not mutual exclusive, rather inclusive and integral.

In this short piece, we wish to raise the awareness and importance of Sustainability & ESG. There are numerous approaches however considering all institutional operations is key. These may include: assessing the organisations performance against basic metrics; reviewing current standards and best practices in what social and governance affairs are currently happening; developing an updated set of objectives to include renewed environment, social and governance goals that align with the strategic directions and strengths of the organisation.

Meeting environmental obligations is one of the most urgent challenges facing communities worldwide and the Not for Profit sector should be making similar contributions in positive social transformations relevant to global Sustainable Development Goals (SDGs), including those relevant to gender and social equality. To manage those transformations successfully, you must ensure you have the right governance settings in place.

Essentially, this requires an ESG framework touches every aspect of the way an organisation is operated and optimised for a sustainable future - economic as well as environmentally, socially and in terms of its governance.

At MHA we place equal emphasis on the 'E', the 'S' and the 'G' because our experience has demonstrated that the three elements are highly interconnected and mutually beneficial to each other's objective gains.

Has your organisation created a basic framework that captures all your ESG work you think you do? We call this an Integrated External Engagement Framework (IEEF); which in turn evaluates performance to create an ESG Plan (ESGP);

Ask yourself the question: does your organisation have a robust model for implementing IEEF and ESGP solutions with an effective return on investment and communications frameworks? If the answer to this question is 'no' then it is most likely that you are not optimising your organisation's ESG potential, neither realising fully the benefits, including fiscal benefits, that a planned ESG programme can deliver.

Take your establishment's operations for example. What is its carbon footprint? Does it optimise energy usage? Does it involve travel? If so, by what means? Are resources on line? What equipment is required? Where is that equipment sourced? How are you recording innovation?

Of course, that is only part of your ESG story. What commitments are you making with regards to inclusiveness, gender equality, fair and equal pay, minority groups, interaction with the local community, recognition and reward, whistle-blowing, personal development and the like? Again, how are you generating, applying and recording innovation? Your ESGP will place a framework around all of these components, ensuring that the organisation, framed through an ESG Plan, is simply a better place.

Although for many organisations, ESG will not yet be mandated, that is no reason for not following an ESG programme. In time, every commercial and non-commercial enterprise in the UK will be ESG mandated. Getting ahead now means ESG becomes your organisation's norm before it becomes an organisational issue.

The starting point for ESG-compliant organisations is to establish a clear ESG vision with equally clear SMART ESG metrics and mile stones.

At MHA we term our Sustainability and ESG suite of services 'Dynamic ESG'. Why? Because ESG is a journey, not simply a single point achievement. As your organisation changes through its ESG commitments, so too will its ability to leverage its ESG programme further for the benefit of the organisation, its staff, its stakeholders, its supply chain and its users.

MHA Not for Profit Contacts

Sudhir Singh
Head of MHA Not for Profit
E: sudhir.singh@mhllp.co.uk

London & South East
Stuart McKay
Partner
E: stuart.mckay@mhllp.co.uk

North West
Nicola Mason
Director
E: nicola.mason@mooreandsmalley.co.uk

Midlands
Helen Blundell
Director
E: helen.blundell@mhllp.co.uk

South West
Bianca Silva
Head of Education, Partner
E: bianca.silva@mhllp.co.uk

North East
Rebecca Hughes
Partner
E: rebecca.hughes@mhllp.co.uk

MHA Not for Profit Team
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Disclaimer

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