Honorary Treasurers Forum 'Summer Symposium' Highlights 2016

The Honorary Treasurer's Forum's 'Summer Symposium' on 5th July 2016 explored some key challenges facing charity boards and Honorary Treasurers in the areas of social investment, fundraising regulation and cyber security.

Well known and eminent Chairs and sector experts took part in three different panel sessions. We wanted to bring you some of the main highlights of the day.

Social Investment

Is social investment right for us?

How do we know if social investment is a good option for us? What do we need to consider and how do we approach access funding?

These were just some of the questions put to our social investment panel chaired by Sir Harvey McGrath, Chairman of Big Society Capital and Heart of the City.

Harvey was joined by speakers Mark Salway, Director, Social Finance Cass CCE, Carolyn Sims, Head of Banking, Charity bank and Nat Sloane, chair of Big Lottery Fund, and chair of Social and Sustainable Capital.

Several key themes emerged.

Cass CCE's Mark Salway noted that there is still much confusion in the market about what social investment is. A recent survey from Cass CCE found that 45% of charities didn't understand what it was and 60% didn't have a good idea.

He explained, "Social investment is the space that sits between philanthropy, where one gives money away for a positive social outcome, and pure market based investments."

On the other hand, social investors expect a return and a positive social outcome.

But he claimed there is still fear and trepidation amongst trustees about social investment. Although many trustees have strong investment skills, he believes they are not prepared to use them and instead fall back on grants and funds from foundations.

He said this isn't sustainable. 44% of charities say funds from foundations are decreasing and there has been a 34% drop in government grants. He said charities must change their mind sets and consider social investment as an alternative tool that could help them become sustainable.

To demystify social investment, Cass CCE has launched a social investment guide[1] in partnership with the City Bridge Trust to help charities decide if it is right for them.

However, he stressed, "it is not a silver bullet or a panacea to the funding challenges. It is not for everyone and not an option for charities whose business models do not sustain repayable funding.

He also pointed out that lenders are offering very different models too – some charge commercial rates of interest – up to 15%, whilst others are more mission focused.

What should charities consider when approaching banks?

Charity Bank's Carolyn Sims explained they lend to all sizes of charities, from large organisations to small alms houses with just two or three properties.

Most organisations are borrowing for property purposes – either to replace rents with a mortgage, for refurbishment or remodelling or for new buildings to support development and service expansion. Charity Bank also provides loans to aid cash flow, provide working capital services or support in charities setting up trading activities so they can become more sustainable.

"Social investment isn't good for replacing grant funding – as loan finance is repayable," stressed Carolyn.

She said, "Charity Bank looks for the purpose and reasons behind why trustees want to borrow, what impact and good it will deliver and whether there are good governance structures in place. We also look at whether the charity got into difficulty or experienced any governance issues."

She also highlighted they have a rigorous due diligence process as the last thing a social finance institute wants to do is foreclose on a loan.

[1] http://www.cass.city.ac.uk/research-and-faculty/centres/cce/knowledge-sharing/tools-for-success

Points to consider when applying for social investment

1. Are you unincorporated? You need to become corporated if you are going to borrow otherwise trustees become personally liable for the loan.
2. Take advice and look carefully at the Charities Act to determine if the terms of loan are reasonable
3. Understand clearly the terms on which you are borrowing
4. Go in open minded and understand what could cause problems
5. What are you signing up to – what are the terms?
6. If you are not comfortable – go back to the investors
7. You are the Guardians of the charity you need to know what you are committing to

Nat Sloane, chair of Big Lottery Fund, and chair of Social and Sustainable Capital National lottery explained that they provide money to help social enterprises and charities become ‘social investment ready’.

They deploy money in the form of grants to help organisations who think they can use social investment to better effect. Their main focus has been on capacity building and in particular developing the financial skills of board members. He said that the capability of the executive team and board is fundamental to their decisions about awarding money.

To conclude, the panellists talked about some of the barriers to growth including the perception that it is too expensive, too cumbersome to access or too complicated in terms of documentation. It is also perceived as being too complex and there needs be a better understanding of it before Treasurers should go on the journey.

Harvey concluded that there is more available funding right now in the market than organisations with the ability to invest.

All change in fundraising regulation

Views from the new Fundraising Regulator and Cancer Research

With the new Fundraising Regulator in place and new fundraising code introduced earlier this year – what are the implications for the sector?

This highly topical session was chaired by Heather Lamont, Client Investment Director at CCLA, Trustee HTF.

Heather was joined by Stephen Dunmore, Chief Executive, Fundraising regulator and Ed Aspel, Executive Director Fundraising and Marketing, Cancer Research.

Stephen Dunmore highlighted that over the past 10 to 12 years, the 'industrial style' fundraising in which some large charities had engaged had led to some of the ethical values 'going missing'.

He explained to the audience that the new Fundraising Regulator had been established following the Etherington review of fundraising self-regulation (2015) and its goal is to strengthen the system of charity regulation and restore public trust in fundraising. It would be formally launched on the 7th July with memorandums of understanding due to be signed with the Charity Commission, the Institute of Fundraising and the Information Commissioner.

Its role is to:

- Set and promote the standards for fundraising practice ('the code' and associated rulebooks) in consultation with the public, fundraising stakeholders and legislators.
- Investigate cases where fundraising practices have led to significant public concern.
- Adjudicate complaints from the public about fundraising practice, where these cannot be resolved by the charities themselves.
- Operate a fundraising preference service to enable individuals to manage their contact with charities.
- Where poor fundraising practice is judged to have taken place, recommend best practice guidance and take proportionate remedial action.

Stephen stressed that it wasn't about "more regulation – but improved, better and more engaged regulation."

He also told the symposium that the Fundraising Preference Service was "full of unintended consequences" and the regulator was working on a "more nuanced version" of it that will be released as a discussion paper soon.

Funding to establish the regulator was not forthcoming from the government and instead they had begged for contributions from the 50 biggest fundraising charities, of which 45 had agreed to provide a contribution. Future funding is expected to be superseded by a levy on charities which fundraise more than £100K.

Dunmore said the service needed it to work without unduly impeding the right of charities to ask for funding and ensure donors were aware about what opting out entailed.

Cancer Research UK (CRUK) has proactively tackled the issue of donors opting in. Following the Etherington Review, the charity announced it would move to introduce an opt-in-only policy for fundraising communications. Its rationale behind was that opt-in was coming anyway so they might as well start talking to donors now.

Ed said they firstly looked at their data and analysed the potential financial impact over five years of losing donors through opt-in. CRUK worked out that instead of 60 per cent of supporters sticking with CRUK if it had continued to use an opt-out fundraising strategy, it would be around 20 per cent with opt-in.

He admitted that the initial reaction from the fundraising teams was “real panic”. But they quickly realised fewer supporters would significantly reduce marketing costs whilst the bottom line losses wouldn’t be nearly as big as they thought. The problem was also reduced as a high level of email addresses of supporters were obtained through individual donor pages which already had opt-in.

He asked, “When approaching opt-in – are charities just looking at the worst case scenario?” Instead it could be a real opportunity for a new way of thinking, to better understand how to get people engaged and what would make them opt-in? Attitudes towards donors changed radically and very quickly.

CRUK has about 10 to 12 million supporters on its database. They ring people once or twice a year to ask them if they would like to increase their direct debits and now use this as an opportunity to ask them to opt-in. They found that around 40 to 50 per cent of supporters opted-in, substantially more than the 20 per cent they had anticipated.

If charities are contacting their supporters regularly to ask them, why not ask them at the same time to opt-in?, It isn't a huge increase in work to do that. He appreciated that the process might be more complex for other charities but opt-in could be viewed as protecting long-term trust and income.

Stephen Dunmore concluded that a key hurdle now is the public lack of trust in charities and how to put that right. He said, "What is the cost of this lack of trust?"

But he added, that this problem has been created by the sector and it is down to the sector to put it right.

Cyber security

How should charities deal with Cyber security?

Cybercrime is a multi-billion pound industry and according to reports[2],, UK businesses and charities experience up to 1,000 cyber-attacks an hour.

According to the government's information security breach survey 2015[3] 74 per cent of SMEs experienced some form of information security breach in 2015.

For charities, the risks of a security breach are both financial and reputational. The British Pregnancy Advice Service endured adverse headlines and was fined £200,000 following a data breach.

So how charities protect themselves and what should trustees be considering about IT security risks?

Stephen Brooker, Chairman Charity practice at Russam GMS, Trustee HTF Chaired this session on cybercrime and told us that many of the crimes were actually very low tech. It could be as simple as someone cloning a card at a till.

Stephen invited panellists Ian McCaw, Executive Director, EY, David Britton at Ecclesiastical Insurance and Brian Shorten, Chair, Charities Security Forum to share their views.

Ian McCaw pointed out that a fundamental problem with IT security is that traditionally it was always an afterthought. Technology today is largely the same as it was in the 1960s and so is the security – there is no such thing as 100% security. What's more he claimed, he could turn any of us into hackers. Cybercrime is a huge industry and as such, preventing it is a major issue that boards in all sectors are grappling with and have not yet solved.

Brian Shorten said that cybercrime is a buzzword designed to make people think it is a technical issue. In reality, security is all about people and how they use data and information and whether or not they adhere to the right risk and security processes and protect it.

[2] http://www.charitydigitalnews.co.uk/2016/02/11/charities-could-be-vulnerable-to-cyber-attacks-survey-finds/

[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/432412/bis-15-302-information_security_breaches_survey_2015-full-report.pdf

Charities are exactly like businesses he added, but with a key difference – they have their reputation to lose if things go wrong and the trustees will be held responsible. Many charities hold a great deal of personal data – much of which is sensitive and confidential and trustees must consider all the associated risks and implications if there is a data security breach.

So how can charities mitigate risks?

The panellists stressed that not only should cyber risk be incorporated into the risk register, it needs to be high on the agenda and there should be policies and procedures about how to deal with security breaches as they are likely to happen at some point. Considerations are needed around the impact. What would be the cost of downtime and what would the implications be to service users? Insurance is another area to consider – does the insurance policy cover cybercrime?

David Britton highlighted the government report "Cyber Essentials Scheme: Requirements for basic technical protection from cyber attacks "[4]. Cyber liability insurance cover has been available in the market for around 15 years, and has been most successfully used as a risk transfer option in countries that have mandatory data breach notification laws – for example, in most states of the US. This is an area that charities need to consider.

There are of course obvious steps that charities can take to protect their data, such as having up to date anti-virus and spyware on PCs, restricting people from downloading content from unknown sources, encrypting data and having a good password policy - but ultimately security breaches may still happen.

Employees are often a weak point and often targeted to bypass organisational security, for example in phishing attacks. There is also the risk of 'hacktivists', especially for campaigning charities. Or there are people who are simply opportunists and spot a weakness.

The panelists agreed that the most important thing for trustees to understand is that cyber risks are on the increase and they should be moving up the risk register and given the high profile they deserve.

[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/317481/Cyber_Essentials_Requirements.pdf