



Pulse

Deloitte's Charities and Not for Profit Group Newsletter

Welcome to the summer edition of PULSE. In this edition, we consider tax as this area is undergoing change with potential consequences for charities as tax goes digital and, at this time, no edition could be complete without some thoughts on safeguarding. Please also see our article on what issues and challenges can be present when dealing with property transactions.

Finally we present a summary of our new Investment Survey. More details will be published about our launch event shortly.

Thanks for reading!

Please note that the views expressed in this publication are those of the authors and not of Deloitte. In the complicated environment in which we all operate, always seek professional advice specifically and don't rely on contents of articles that have been written for general guidance only.



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Safeguarding update



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Very few people will have missed the latest scandals to have hit the sector. All of which involve very different scenarios, but all connected under the topic of 'safeguarding' and because the relevant charities seemingly failed to take necessary action to safeguard their beneficiaries, members, volunteers or staff, as the case may be.

Increased focus on safeguarding

These issues have of course not escaped interest from the press and time will tell what effect such headlines will have on the trust and confidence in the sector generally. However, the headlines coupled with prompt Charity Commission action, the Department for International Development's firm stance and its new enhanced and specific safeguarding requirements to be met by charities before they can bid for future funding, have meant that charities are taking note and considering whether they are also vulnerable to similar criticism and reputational and funding risks.

Charity Commission response

The Charity Commission has been quick off the mark to publicise its updated guidance for charities on the importance of safeguarding and has released information on its website setting out how it interacts with whistle-blowers, which may encourage future whistle-blowers to come forward.

Impacts all charities

The topic of safeguarding has often been dismissed as only being of relevance for charities dealing with children or vulnerable adults. However, it has significance for any charity with staff or indeed any level of interaction with the public. As a basic principle of good governance trustees should proactively safeguard all those coming into contact with the charity and this needs to be a key governance priority. A prudent board of trustees will be reviewing their own policies and procedures, testing the robustness of their own safeguarding arrangements and putting new policies in place where they are lacking.

As the Save the Children example has shown, the emphasis is not simply about the protection of vulnerable beneficiaries but also about harassment in the workplace. The current prominence of the #MeToo movement is encouraging trustees to take responsibility for the culture within their charity, to ensure that all those interacting with the charity are protected.

Many charities who don't directly provide services to beneficiaries, but contract others to do so on their behalf, are reviewing and tightening up their contracts and ensuring that all those involved with their staff, volunteers or beneficiaries have their own effective systems of control and adequate safeguarding policies in place and are aware of their obligations, including the obligation to report to the charity if an incident occurs.

Serious incident reporting

The Charity Commission is publicising an increase in the number Serious Incident Reports being filed, relating to historic as well as current risks to charity funds and reputation, as a result of the press reports: That trend is likely to continue. The Charity Commission's annual report of its compliance case work notes that over half of all serious incidents reported relate to safeguarding concerns. However, the increased awareness of serious incident reporting has also led to an increase in reports more generally outside the topic of safeguarding.

Trustees should ensure that they, and all those working for, or representing the charity understand their reporting requirements. Further it is important that there are clear reporting lines within the charity, the organisations they work with, and to the Commission so that any incident can be adequately assessed, addressed, and reported if necessary.

Considering your properties



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With the ever increasing cost of property, James Crawford from the Deloitte Real Estate team gives his thoughts on some work he has done in the Charity sector and the real estate questions which Charities should be considering.

Tell us a bit about your background and what you do.

I work in the Deloitte Real Estate group, advising occupiers of real estate on their property strategy, how they occupy and use their space.

I focus on capital projects and have experience in providing an end to end offering, from finding the building and agreeing the lease, to working with the building contractor to get the fit out completed and the building handed over to be occupied.

Why do your clients need help?

Clients need help for a variety of reasons and come to us at different stages in their project lifecycle.

Clients may be reorganising their business and need assistance ensuring that their real estate portfolio meets the requirements of their changing business. The ways in which people work are also changing, with more agile working arrangements in place. This might reduce the office space required by a business or require changes to the ways in which the office space is utilised. Another client may be going through a growth phase and need more space. If a client leases a building, they may need assistance designing the fit out which would be later in the process.

Other clients require project assurance where the project is in the delivery phase and they require additional oversight to the process, delivery mechanisms and progress of the project, or help with managing a programme of projects. We can look at project and assess whether or not it has been run well.

Can you give us an example of a recent project that you've been involved with?

We have recently completed a large property strategy piece for an international charity. The Charity was implementing a new global strategy and the organisation was undergoing significant change. Therefore there was an opportunity for the Charity to review and optimise their supply and management arrangements.

What were the Charity's objectives?

The Charity's reorganisation involved wanting to improve support for the people in countries they served by moving employees from their London offices to those countries.

In line with this, the Charity's objectives for the real estate project were:

- To reorganise their London real estate; and
- To refurbish the London offices.

The driver for change was the reorganisation of the Charity and the implications that had on how the Charity used its properties. However, this provided an opportunity to assess and take stock.

What did the project involve?

The Charity challenged itself to consider the utilisation of its existing space and the implications of the new structure. It also considered the age of buildings and whether they met employees' expectations and requirements.

The transfer of employees overseas freed up office space in the premium London location and enabled them to consider how they should best use the space, so that they could free up money to do better work for affected people.

Deloitte provided a breadth of services including:

- Property strategy;
- Workplace consultancy;
- Management of the design team
- Procuring the main contractor and monitoring them through the fit-out stage
- Handover; and
- Migration strategy

Workplace consultancy involved a large piece of work understanding how the space was currently occupied, considering how many employees there should be per desk (e.g. what proportion of employees are in the building at any one time), how densely populated the building should be, how many meeting rooms and other communal spaces are required, what other facilities e.g. staff restaurant are required, and much more.

Deloitte worked with all of the Charity's different business units and met with each of the individual teams to understand their roles and the size and type of space they need. Staff were interviewed and information was gathered regarding who needs to sit near or next to who. The staff completed an online survey and 'a week in the life' study, across genders and grades, was performed to enrich the data. The room booking system and the security turnstile data were analysed, and walks round the buildings were performed two to four times a day to collect data on how the space was utilised.

All this information fed in to the brief for the design team to inform plans and decision making.

What was the outcome?

The Charity decided to sell one of their three London buildings, leaving two remaining offices in London. The funds from the sale enabled the Charity to refurbish the remaining two buildings to make them fit for purpose and to enable efficient working. It freed up significant funds for the Charity and enabled them to move employees overseas as required.

The challenge

It does not need to take a major reorganisation for a charity to take stock of its property and ways of working. As flexible and agile working challenges increase, the need for space and the nature of the space required changes: More meeting rooms, collaboration spaces; reliable connections, remote working, places for quiet work, a list tailored to your charity's needs.

So ask yourself?

Consideration	Yes	No	Comment
1. Do you fully understand your real estate portfolio?			
2. Who is managing your real estate portfolio and are they doing it efficiently?			
3. Are you using your real estate portfolio efficiently?			
4. Are your employees working in the right locations or could they be relocated to an area where office space is less expensive?			
5. Have you considered the efficiencies which could be made with the use of a shared service centre?			
6. Could you release money from your real estate portfolio by selling or sub-letting underutilised areas?			
7. Are you using your property space efficiently or are half the desks empty on any given day?			

A strategic view



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In our charities surveyed cash and investments accounted for 44% of the gross assets held by charities. Decisions over how to manage its assets are a key judgment for charity trustees.

Charity Commission guidance (charities and investment matters: a guide for trustees CC14) makes clear that trustees have discretion over their investments which may range from cash to financial to social and programme related investment. However, each investment should reflect the policies of the charity. Considerations should include the trustees' attitude to risk, the purpose of the investment and how it will be used to further the aims and objectives of the charity. Investments do not necessarily need to seek to maximise financial return but can contribute either wholly or in part to the achievement of the charity's aims and objectives.

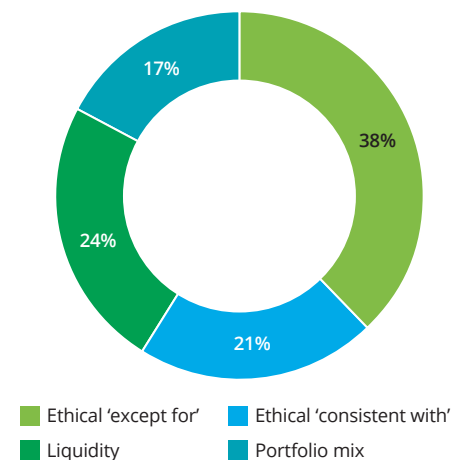
Our survey looked at a random sample of 50 charities; 10 from the top 100 charities by income, 10 from the top 101-200 charities by income and 30 from the remaining top 1000 charities by income. The survey has not focussed specifically on Foundations or other charities whose central purpose is to manage investments but rather has sought to consider an average charity. As with all surveys caution is required when interpreting the results.

Investment choice

Overall only 16% of our charities surveyed held programme related or social investments, compared with 62% who held some type of financial investment in addition to cash or investment in a subsidiary.

Just over two-thirds of the charities surveyed placed, at the discretion of the trustees, some restrictions over their investments. This restriction could be ethical, a liquidity requirement or a portfolio mix.

Figure 1: How are restrictions described?

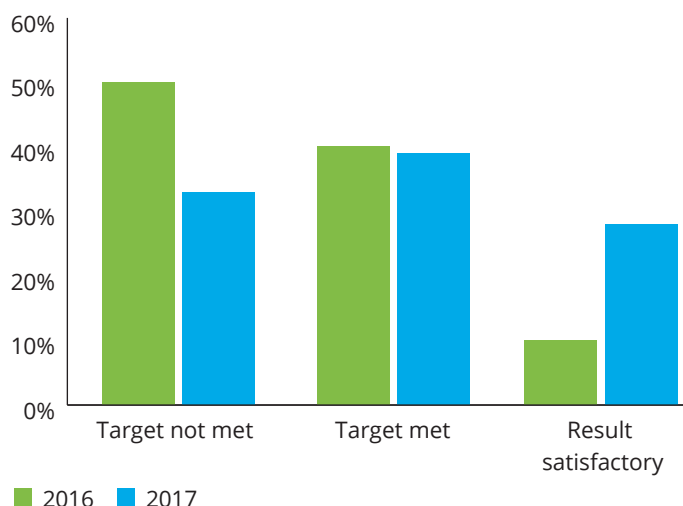


Only just over half of the charities surveyed mentioning ethical restrictions gave details of their policy. However, many just referred to the existence of a policy and alluded to the fact that investments made would be consistent with the principles of the charity and its general aims.

Investment performance

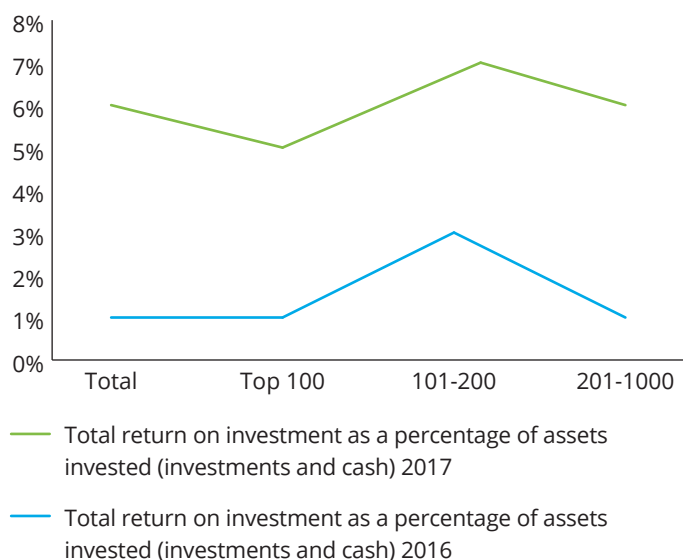
The quality of discussion on investment performance improved over the years surveyed, with 46%, compared to 19% in the previous year, including some details of targets set and performance against the targets. 30% (prior year: 14%) concluded on whether they had achieved their targets, though not all commented on what their targets were.

Figure 2: Were investment targets met?



As can be seen from figure 2 more of the charities surveyed met their targets this year, which is consistent with the general increase in investment returns shown in figure 3.

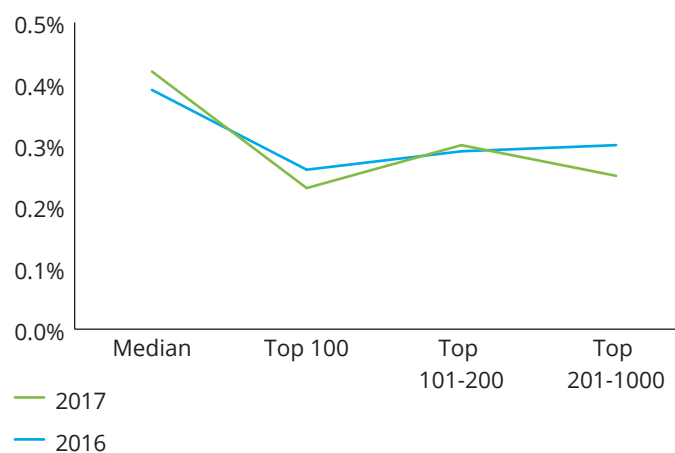
Figure 3: What was the return on investments (income and gains/losses)?



Investment costs

The SORP (4.47) states that the costs of investment, where material, should be presented in a separate heading on the face of the SOFA or in the notes to the accounts. Of those charities surveyed who included an investment manager among their professional advisers, only 80% disclosed their fees. Figure 4 below shows that investment costs have been fairly stable over the charities surveyed.

Figure 4: What were the costs of investment as a percentage of levels of fixed asset investment?



The SORP (4.38) does allow costs of investment to be reported net of income where it is not practicable to identify the costs incurred within the scheme with reasonable accuracy and therefore the costs above may not tell the whole story.

Investment assessment

Of our charities surveyed most commented on an annual review in their investment policies. This review is an opportunity for trustees to challenge their investment management strategy, managers and results. Do investments reflect the risk appetite of the charity; are the right benchmarks being set and monitored; is this the best method for income generation; financial security; and will investing help the charity achieve its charitable aims and objectives?

Making tax digital



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In 2015, the Government declared its intention to modernise the UK tax system and reduce the £9.4bn tax gap. Several years later, taxpayers are now preparing for the implementation of Making Tax Digital ("MTD"): HMRC's latest initiative to bring tax compliance into the 21st century.

VAT is the first of the taxes to fall within the scope of MTD.

From 1 April 2019, the majority of VAT-registered taxpayers will be required to keep digitally auditable VAT records and use software to provide VAT return information directly to HMRC. There is no exception for charities.

With less than a year to go, taxpayers must act now to ensure both their teams and systems are prepared to comply with the new regime.

Background to MTD

HMRC identified four core principles that structured their approach to MTD:

- HMRC should collect information more efficiently – it should only rely on taxpayers submitting information when it is not available from other sources, and taxpayers should have a full understanding of the information HMRC has collected.
- HMRC should calculate taxpayers' liability to tax in real time based on the above information.
- Taxpayer's online accounts should summarise liabilities and entitlements, similar to an online banking account.
- All aspects of taxpayers' interaction with HMRC should be digitised to the furthest extent possible. This includes the exchange of information through a direct link between taxpayers' software and HMRC systems.

How does this translate into what is required under MTD? The majority of VAT-registered taxpayers will need to digitally store and submit VAT records to HMRC. These records must be digitally auditable, and the link to HMRC's system through an API (or 'Application Programming Interface') must use compliant software.

HMRC intend to release a list of such software shortly. Each must be able to keep records in a digital format, preserve them for up to 6 years, channel data into a VAT return that it uploads to HMRC, receive information *from* HMRC, and provide supplementary data as required.

This software will connect to HMRC through a digital link that *automates* the transfer of data, thereby avoiding manual intervention. Much to the relief of many, HMRC intend to accommodate the current widespread use of spreadsheets (although a move away from the copy & paste and manual adjustments approach will be required).

What's next?

Taxpayers should begin preparing now for 1 April 2019 by comprehensively reviewing current practice and digital capabilities. How is data gathered, processed, and consolidated into a VAT return? Are you prepared to digitise records that HMRC can remotely audit? Are systems fit for purpose, and might it be prudent to invest in *automating* manual processes to a greater extent?

MTD regulations are expected to be published shortly, and HMRC are preparing a public notice to guide taxpayers. These are expected to provide much-anticipated details on the scope of digital recordkeeping, software, and permissible manual intervention in the data that is digitally linked to HMRC.

Ultimately, once implemented, MTD seeks to reduce errors by simplifying compliance for all parties. Taxpayers should act now to invest in a simpler future.



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