



Case Report

Our Local Heroes Foundation (1142029)

About the charity

The charity's objects are to relieve the financial hardship of people who have served in the armed forces and are in need, by making grants.

Why the Charity Commission got involved

We received complaints that the public was being misled and were not being properly informed that only 20% of the funds raised went to the charity. Our role was to ensure that trustees were complying with their legal duties, as we do not directly regulate fundraising.

The action we took

We met the trustees and visited the charity to conduct an inspection of the charity's books and records. This allowed us to properly understand the way the charity was being run.

What we found

We identified serious regulatory concerns including a very low level of charitable expenditure, substantial spending outside the charity's objects, poor governance, conflicts of interest and an insufficient focus on providing grants to beneficiaries. The charity had entered into contracts and agreements without due diligence or proper records and there were poor financial controls. The charity's income in 2015 was £500,000, but only £10,000 had been used in to further the charity's objects by providing grants. There were 8 employees, with wages and office costs of £155,000.

The charity had signed a fundraising agreement with Targeted Management Ltd (TML) for a 5 year term which stipulated that the charity would be invoiced for 80% of all the funds they raised. TML managed the charity's fundraising and claimed that this arrangement did not bring them within the regulations that cover commercial participators and fundraisers. At the time of the visit, the average income was £20,000 a week with a potential income of £1,000,000 a year. There was no evidence of fraud or theft in the charity.

We stated that this was not acceptable and that there was likely to be justifiable public concern and damage to the charity's reputation if the ratio of income to charitable expenditure remained so low.

We considered whether to use the commission's formal legal powers and open an investigation (Statutory Inquiry) into the charity. However in view of the open and responsible approach shown by the trustees, we issued and agreed an action plan with 3 key objectives:

1. to ensure that fundraising is conducted in an open and transparent way, and the public are informed how much of their donation would go to the charity
2. to maximise the proportion of income given as grants and minimise administration costs
3. to ensure money is not spent outside the objects of the charity

The action plan agreed with the trustees included:

- a fundamental review of the way the charity operated
- only authorising spending and employment contracts which furthered the objects of the charity
- reviewing the contract with TML to ensure fundraising requirements are met
- better identifying beneficiaries by working with organisations that support ex-service personnel who are in need.

We issued regulatory advice to the trustees that fundraising guidance sets out the principle that the fundraising statement should give the public an accurate figure for the percentage, or amount of fundraising costs and how much is spent on fundraising activity. We also highlighted the general requirement for charities to be transparent and honest in their dealings with the public, and for the trustees to be mindful of the need to safeguard the charity's reputation.

Impact of our involvement

The trustees followed the action plan which had been agreed with the commission with the result that costs were substantially reduced by over £100,000 a year. The trustees also stopped all projects that did not directly further the charity's objects.

The charity contacted the Royal British Legion, Age Concern and Local Authorities, which led to increased applications for grants and the provision of £26,000 to beneficiaries in the first quarter. The charity is now aiming to provide a minimum of £140,000 worth of grants a year. New trustees have been recruited, and governance and financial controls have been put in place by the charity.

These significant and positive measures which have been put in place by the trustees have substantially addressed our regulatory concerns.

Fundraising is managed by TML on behalf of the charity's trading subsidiary. The fundraising statement now shows the percentage of fundraising costs (80%) and the percentage going to charitable activity (20%) in both percentage terms and graphically. The statement also states that a minimum of £160,000 will be given to the charity.

We consider that this fundraising statement does address the regulatory concerns that we expressed to the trustees. However the fundraising costs of 80% remain high. We have therefore highlighted the trustees' continuing duty to ensure that:

- the public sees this information when being asked for a donation
- scripts used by the fundraisers convey the key information about fundraising costs
- information also explains how charity funds are used in line with the charity's objects
- trustees receive reports and actively monitor the fundraising process to check this is being carried out by their trading company
- trustees keep the fundraising arrangements under review to ensure that they remain the most effective method and are in the charity's best interests

Lessons for other charities

Working with professional fundraisers - trustee duties

Paying a specialist individual or business to raise money for a charity can bring benefits. However, to meet their legal duties, trustees must ensure that

- these arrangements comply with the specific legal requirements that apply
- they can show that the arrangements, including the costs, are set and monitored in the best interests of the charity, protecting it from undue risks to its reputation and other assets
- money raised is always used in an effective and efficient way to advance the objects of the charity and support beneficiaries

Trustees should be satisfied that

- there is strong management of the people and organisations that the charity works with
- they can explain fundraising costs, being transparent about how the charity benefits

Fundraising costs

We recognise that trustees may have to make difficult decisions. Some arrangements with a professional fundraiser or other partner can promise instant or increased income. However, if the arrangement involves high fundraising costs, both at start up and later stages of the fundraising, it may not be the best deal for the charity and can create the impression that it is being exploited for private gain. Income considerations should be balanced with attention to the charity's wider best interests. Trustees should keep in mind their duty to protect their charity's reputation.

Whilst there is no set amount that a charity should spend on fundraising costs and no definitive measures setting out the minimum proportion of a donation that must go to a charity, this does not mean that a very low proportion of money going to a charity is acceptable. We recognise that fundraising costs can vary between different forms of fundraising, different causes, and from year to year, but trustees should ensure that the overall and specific cost of their charity's fundraising is reasonable.

Where we consider that a charity's high fundraising costs pose an undue risk to its reputation, we may intervene to ensure that the trustees are carrying out their legal duties and responsibilities, and that donors are not being misled.

In this case, where costs remain high, we have required trustees to provide clear and detailed information for donors, over and above what would normally be required by the legal and accounting framework, about the extent to which the charity will benefit from their support. This greater level of accountability to donors is a means of mitigating the risk to the charity's reputation.

Fundraising regulation - the commission's role

Regulation of the fundraising methods and approaches charities use is covered by a self-regulation system, currently overseen by the [Fundraising Standards Board](#). This system supervises charities' compliance with a [Code of Fundraising Practice](#). The commission will become involved in a fundraising matter, sometimes alongside or in support of other agencies, where there is a serious concern about trustees' compliance with their duties.

Further reading

There is more information about the legal requirements that apply to arrangements with a professional fundraiser or commercial participator in this short guidance on [working with companies and professional fundraisers](#) and in our detailed [fundraising guidance](#). You can also check the information and advice provided by the [Institute of Fundraising](#). Trustees should be familiar with the commission's guidance on their [trustee duties](#).