



## Operational Case Report

# The BeatBullying Group (1097631)

---

### About the charity

The BeatBullying Group (hereafter referred to as 'BeatBullying') was registered in 2003, with charitable objectives to provide anti-bullying education and support to children, young people and their families. The charity ran both the Mindfull project and the BeatBullying project through the same charitable company.

### Why the commission got involved

Anonymous concerns were raised with us about the charity's financial position in June 2013. We engaged with the charity and were satisfied that a strategy was in place to improve its finances.

Some months later in December 2013, a firm of solicitors representing one of the charity's creditors contacted us stating that they had reason to believe BeatBullying may be insolvent. We made it clear we couldn't help them recover the monies owed to their client but we did contact the charity about its financial position. We were satisfied that the independent auditor had assessed the charity as a going concern.

However, further concerns were raised with us in late September 2014 and we also received a serious incident report from the charity informing us of very serious financial difficulties. Soon after this, the charity advised us of its intention to close. BeatBullying has a high profile and its closure would have a significant, and highly distressing, impact on beneficiaries, volunteers, staff and the wider public. We needed to ascertain how this situation had occurred so that we could establish whether there had been any financial mismanagement or misconduct on the part of the trustees, and whether they had fulfilled their duties.

### The action we took

We opened an operational compliance case in October 2014 and contacted the charity to arrange a meeting with the trustees. They provided us with information, and we conducted a thorough review of the charity's financial accounts and other documents. We asked the trustees extensive questions and examined the evidence they provided us with thoroughly, to gain a clear understanding of the situation.

## What we found

We found that the charity had been experiencing financial difficulties for some time as a result of its reliance on grant funding and its lack of reserves. The accounts for the financial year ending December 2012 showed a deficit, but they were signed off on a 'going concern' basis by the auditor who was satisfied the trustees were taking steps to improve the position. Our review of the charity's consolidated management accounts to 31 December 2013 showed that the cumulative loss for 2013 was £417,814.

We found that the charity's liquidation was triggered by a number of events in 2014. Two key expected grants, from Daphne EU and the organisation Funders and Public Health England, were not received - a total of £1,444,608. The trustees were taking steps to deal with this when third parties became aware of it. BeatBullying contacted the Department for Education (DFE), one of its grant funders, about its financial difficulties. After careful consideration of the terms and conditions of the grant and consultation with the charity, the DFE had to reconsider its funding arrangements. Another funder also shared information within the funding community and advised the charity should not be invested in or funded at the present time. These events caused significant cash flow problems and meant the charity could not continue operating.

## How the problems arose

Arguments could reasonably be made that the trustees had grounds to believe that they would achieve the funding, and made financial and operational decisions on this basis. The trustees argued that Funders and Public Health England indicated that they would be successful in their application. We also saw evidence that the trustees only failed to receive Daphne EU funding (£853,000) by a score of 1% in their application - they achieved 85%, the cut-off for funding was 86%.

There is an inherent risk in any application for funding that it will not be successful, and this is something that trustees need to manage. However it was our view (based on the information provided by the trustees and in light of the way in which charities commonly rely on funding) that their decision to anticipate the successful receipt of this funding was not unreasonable.

## How the trustees managed the problems

The trustees appear to have actively attempted to manage the charity's finances throughout, and were confident that they had made decisions to the best of their ability and in the charity's best interests. The trustees received support from the charity's management and worked closely with them, enabling them to deal speedily with problems.

They took actions to secure funds, re-negotiate contracts and achieve a £250k 'resilience' loan from the Paul Hamlyn Foundation to sustain the charity through to the anticipated funding in 2014. Unfortunately, the relief obtained from the loan was short lived. The board engaged professional support for the financial option modelling and retained external legal and financial support. This enabled the trustees to make swift decisions and board meetings were held bi-weekly. Daily calls took place to manage cash flow, creditors and to progress re-structuring options, and redundancies were made to enable the charity to continue operating with less staff. The trustees also investigated finding a buyer for the BeatBullying Group, but were unsuccessful.

## The issue of communication

The trustees were open and communicative with us at and around our meeting of November 2014. They maintain that the decisions they made were in the best interests of the charity and its creditors, but agree that they could have acted more promptly when informing us about the gravity of the charity's financial situation in 2013, when we initially engaged with them.

The trustees have been criticised in the media for their lack of communication with volunteers, beneficiaries and the public. However, we accept that they were limited in what they could say publically during the liquidation process due to their duty to not prejudice the interest of the creditors.

## The issue of reserves

BeatBullying was not in compliance with its own reserves policy and had no reserves. It was therefore quickly affected by the cancellation of anticipated funding. The trustees had recognised they needed to build up reserves and had plans to do this, which could have helped tide the charity over until more funding applications could be made and granted. However, many grants have conditions attached to them such as the time period over which the grant should be spent. Therefore, it may be very difficult for a grant-funded charity to put aside money and build it up into reasonable reserves.

There is a clear argument that trustees cannot assume receipt of funding - this issue was arguably the crux of the charity's problems. However, the suggestion to be more conservative needs to be balanced with the reality of the environment in which charities operate, and the nature of applying for funding.

## Conclusions

It is very unfortunate that the charity failed, and we are aware of the deep distress of many beneficiaries, volunteers and staff, as well as the wider public. However we have seen no evidence that this arose due to financial misconduct or mismanagement, or misapplication of funds. This is a deeply regrettable instance where despite the best efforts of the trustees and staff, who continued to work amidst much uncertainty, the loss of anticipated funding was too great for the charity to continue operating.

It is not for the commission to decide whether the specific decisions the trustees made were the correct ones. It was our role to decide whether the trustees fulfilled their duties. The trustees appear to have been fully engaged with the operation of the charity, and we have seen no evidence to demonstrate that they attempted to mislead or hide the extent of their financial difficulties. It is up to the trustees to make decisions that a reasonable body of trustees would make, and we found that they had done this and had fulfilled their duties. They were also fully involved in managing the liquidation of the charity and took all possible steps to consider other options to prevent it from happening. Charities which rely on grants are unfortunately always going to be vulnerable due to the 'hand-to-mouth' nature of such funding, along with the fact that some grants are given with conditions attached relating to when the funds must be spent by.

Whilst our own case has concluded, the insolvency investigation is still ongoing, and it is possible that this may uncover further information. However, due to the high levels of interest in BeatBullying, we decided to publish our report upon the conclusion of our own case.

## Lessons for other trustees

Charities which have no reserves and which rely heavily on a single method of funding (such as grants) are always going to face a serious risk to their viability. This case shows that even experienced charities with conscientious trustees at the helm can suffer and find themselves in a position where the charity has no choice but to close. Trustees should identify their reliance on grants as a risk and build this risk management into their business plan. Recognising the risks posed by the 'hand to mouth' nature of their charity's funding will help trustees:

- cost realistically what grants they need and build this into their business plans
- seek additional forms of funding
- reach the point where they are able to build up some reserves

We recognise that this situation is a reality for many charities, and so recommend trustees look at the guidance we provide and regularly review their business plans and relevant policies to ensure they are properly carrying out their duties.

## Managing financial difficulties and insolvency and Risk management

These two pieces of guidance will help trustees know how to spot risks and develop strategies to mitigate them.

[Managing financial difficulties and insolvency](#) provides a list of questions that trustees might find useful to ask themselves to establish the charity's financial position, and to ensure they understand the meaning of what it is to be signed off as a 'going concern' by an auditor. As part of this, trustees should consider the risk of net current liabilities. In a [recent review of accounts](#), we found more than two in five of a sample of charities with net current liabilities had failed to explain the issue in their annual reports, meaning that they missed the opportunity to explain to funders and stakeholders how they were managing the risk. Whilst a net current liability doesn't necessarily mean that a charity is facing financial difficulties, if this situation continues for a sustained period then the charity's long term survival must be questionable. Trustees should use their trustees' annual report and accounts as an opportunity to reassure their funders, supporters and beneficiaries that they are actively managing the situation.

## Big Board Talk and How to close a charity

The above is not easy, particularly in the current financial climate, and sadly, it will not always be possible to avoid situations such as the one BeatBullying faced. Insolvency in charities does occur, in which case our guidance details how trustees can manage and minimise its impact. It's important that trustees make themselves aware of how to close down a charity, should the need to do so ever arise, and ensure they know what the requirements are. Our [Big Board Talk](#) covers questions related to all stages of the financial cycle that trustees should ask themselves and is of particular help when the economic climate becomes tough.

## Charities and reserves

Trustees should consider what appropriate reserve levels are for their charity and how this aligns with any grant rules and restrictions, and include this in their reserves policy. Trustees can reduce risk by factoring this reserves policy and reliance on grant funding into the overall financial management of their charity.

## Decision making

Trustees are collectively responsible for decisions made about the running of the charity and should read [our guidance](#) to make sure they are acting within their powers and in the best interests of the charity. They should also keep proper records of their meetings and of the decisions made. In this case, the BeatBullying trustees keeping records this way showed us that they had made decisions that a reasonable body of trustees would make.

## Reporting serious incidents

As BeatBullying was facing significant harm to its work, the trustees were right in this case to submit a serious incident report. It's very important that trustees [report serious incidents](#) or suspected serious incidents to us as soon as they occur. This needs to be done even if the incident has already been reported to the police or another regulator. We will take up cases where we need more information, have to provide regulatory advice or guidance, or have to use our legal powers. The trustees should provide as much information as possible, to enable us to take the appropriate action.