



**CHARITY COMMISSION**  
FOR ENGLAND AND WALES

# **Charity Commission**

# **Annual Report and Accounts**

2016-17



Charity Commission

Annual Report and Accounts 2016-17  
(For the year ended 31 March 2017)

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# 1

## Introduction from the Chairman and Chief Executive

This Annual Report 2016-2017 highlights how our work over the last year has met our strategic objectives and how we have managed the risks to achieving our operational objectives identified within our Business Plan.



This was the second year of our Strategic Plan 2015-2018. Our mission remains the same: to be an efficient and expert registrar and regulator.

Charities we regulate saw an increase in income of almost £4 billion from the previous year to a total of £74.7 billion this year.

We were honoured that the Prime Minister, Rt Hon Theresa May MP, chose our annual public meeting to give a significant speech on her vision for social reform. There could be no better indication of the importance of charities to this country, and of our responsibility as regulator.

In the context of profound economic, political, social and technological change, charities' work is having to evolve and adapt dramatically. The year witnessed increased financial difficulties and constraints, with some high-profile insolvencies. Public scrutiny of unacceptable fundraising practices, data protection violations and poor governance resulted in trust and confidence in charities falling to unprecedented levels in 2016.

As a regulator, we responded to these challenges, often in collaboration with the sector. Our response took many forms, including testifying at the House of Lords Select Committee on Charities, supporting the development of the Fundraising Regulator and continuing to stress our key priorities which aim to improve charity governance.

**The Select Committee on Charities noted that charities are the eyes, ears and conscience of society: "They mobilise, they provide, they inspire, they advocate and they unite. From small local organisations run entirely by volunteers to major global organisations with turnover in the hundreds of millions, their work touches almost every facet of British civic life."**

Our principle focus continues to be on ensuring trustees' compliance with their duties - intervening directly, seeking restitution or taking enforcement action. We consulted on using the updated powers given to us by the Charities (Protection and Social Investment) Act 2016 and we provided new guidance for charities as a result. We also strengthened our risk assessment capability.

We seek to prevent things going wrong in the first place, and we took further steps to enable trustees to run their charities more effectively. For example, we automated data processes, improved guidance and increased accessibility to our resources.

We also appointed a Deputy Registrar to help ensure the register of charities is up-to-date, accurate and fit for purpose.

We continued to meet our priority of operating as an efficient and expert regulator with progress made across all elements of our Transform Programme. This year we focussed on risk-led regulation, operational effectiveness, digital developments and continued improvements to the Commission's culture.

Continuing to provide effective charity regulation within our current budget will be a significant challenge. As a responsible regulator, we must explore ways to ensure we have the funds that we need, now and in the future, to regulate charities in a way that means the public can have trust and confidence in them. We plan to consult on a sustainable funding model later this year, subject to Treasury approval.

We thank all Commission staff in the face of pay increase restrictions, a hugely increased volume of work and the constraints on our resources. It was their passion and commitment which enabled the Commission to achieve all it has this year.

A new Chief Executive, Helen Stephenson, will join the Commission this summer following on from Paula Sussex's successful three year term; and the Board will set the strategy for 2018-2021.

We hope you will find our report an informative, engaging and reassuring account of our progress during the 2016-2017 year.



**William Shawcross**  
Chairman  
Charity Commission



**Paula Sussex**  
Chief Executive  
Charity Commission

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# Who we are

The Charity Commission is the registrar and regulator of charities in England and Wales. We are an independent, non-ministerial government department accountable to Parliament. We are also accountable for the exercise of our quasi-judicial powers to the First-tier Tribunal (Charity) and the High Court.

As registrar we are responsible for maintaining an accurate and up-to-date register of charities. This includes determining whether organisations are charitable and should be registered as well as removing those which are no longer considered to be charitable, have ceased to exist or do not operate. As a regulator we regulate both registered charities and charities which are not required to be registered. We regulate within a clear legal framework and follow published policies and procedures, ensuring that in making regulatory decisions we are proportionate in our approach.

At 31 March 2017, there were 167,063 charities (and 16,455 subsidiaries) on the register.

During the year, we regulated £74.7 billion of charity income, almost £4 billion more than the previous year, and over £71 billion of charity spend.

### Our statutory objectives

Parliament, through the Charities Act 2011, gives us five statutory objectives. These are to:

1. increase public trust and confidence in charities
2. promote awareness and understanding of the operation of the public benefit requirement
3. promote compliance by charity trustees with their legal obligations in exercising control and management of their charities
4. promote the effective use of charitable resources
5. enhance the accountability of charities to donors, beneficiaries and the general public.

We have wide discretion in how we achieve our objectives.

### Our mission

Our mission is to be an effective regulator of charities in England and Wales. We promote public trust and confidence in charities, and thereby encourage charitable giving in all of its forms.

### Our regulatory approach

Our regulatory approach is designed to meet the expectations of the Commission set out in the Charities Act 2011 and in the Charities (Protection and Social Investment) Act 2016. We concentrate on promoting compliance by charity trustees with their legal obligations, holding charities accountable, promoting public trust and confidence in charities, promoting trusteeship and the effective use of charitable resources and ensuring the integrity of the register of charities.

More information about us and our regulatory statement can be found on [GOV.UK](https://www.gov.uk).

### Our quasi-judicial functions

As the charity registrar and regulator we carry out quasi-judicial functions following both the common law and statutory obligations which govern charities. We adopt a rigorous approach in the exercise of our powers, act fairly and proportionately and give reasons for our decisions.

Where the law is dated, unclear or imprecise and, unless strict precedent binds us, we approach the cases in a way we think the courts would.

The common law is developed by the courts in the light of changing social and economic conditions and values, and we recognise this in our decisions.



The exercise of many of our legal powers can be appealed to the First-tier Tribunal (Charity) whilst others may be subject to judicial review in the High Court. Decisions on charitable status and registration, the use of our powers to give formal advice and permissions, our compliance work in dealing with investigations and taking remedial action against defaulting trustees and those who abuse charities may all be subject to appeal or review in this way.

This year we were involved in litigation both in cases brought against our decisions, brought proactively by us to secure money lost to charities, and to seek the Court's directions to resolve complex or contentious issues affecting a charity. Some case reports are included within the Legal annex to this report.

### **Our strategic priorities to 2018**

Our strategy assures charities and the public that we will be robust in our approach to abuse and mismanagement of charities. It also ensures that we make it easier and more efficient for trustees to work with us through more customer-focussed services, and to run their charities better by providing them with clear, accessible and targeted regulatory guidance. Our strategy will also ensure the sustainability of the Commission as a robust, proactive, proportionate, risk-based regulator. It comprises four strategic priorities as follows:

- Priority 1: Protecting charities from abuse or mismanagement
- Priority 2: Enabling trustees to run their charities effectively
- Priority 3: Encouraging greater transparency and accountability by charities
- Priority 4: Operating as an efficient, expert regulator with sustainable funding.

Our Strategic Plan 2015-18 can be found on [GOV.UK](http://GOV.UK).

### **Our governance**

We welcomed three new board members in November 2016; Laurie Benson, Paul Martin and Catherine Quinn joined the Commission bringing new skills, knowledge and experience. Claire Dove and Gwythian Prins resigned from the Board in June 2016 and January 2017 respectively.

### **Our resources**

In 2016-17 we were voted £22.9 million revenue and £2.9 million capital funding from HM Treasury. These amounts included £3.3 million of the £8 million granted by HM Treasury for our 2014-17 Transform Programme.

We had an average of 290 staff (permanent full time equivalent) during 2016-17, structured in five directorates:

- Investigations, Monitoring and Enforcement
- Legal Services
- Operations
- Policy and Communications
- Corporate Services.

These directorates are each led by a director, reporting to our Chief Executive.

In addition, a Risk Assessment Unit was established in 2016 which reports directly to the Chief Executive.

We work across four sites in Liverpool, London, Newport and Taunton. Our Newport office operates bilingually in Welsh and English.

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## Highlights from the year

Highlights this year include:

- improvement in our regulatory outcomes and in sanctioning trustees and charities who deliberately, negligently or persistently fail to comply with the requirements of being a charity, whilst taking the benefits of charitable status
- implementation of new powers and provisions in the Charities (Protection and Social Investment) Act 2016: using our new powers to help us regulate more effectively in line with public expectations
- adopting a more proactive approach, including a thematic risk assessment and supervisory monitoring – sharing best practice across the sector
- improving the speed, efficiency and effectiveness of our work whilst coping with increasing volumes and demands across our main case working outputs, which include:
  - permissions
  - compliance
  - investigations and inquiries
  - registration services
  - delivering the first phase of our digital services programme including the Apply to Register a Charity (ARC) online service which is delivering improved access for applicants and efficiency savings
  - appointing a Deputy Registrar of charities, recognising the importance of charity data and of our public register of charities
  - updating key policy guidance and publications, supported by proactive and regular engagement with charities on the themes of governance, leadership and financial management
  - improving our efficiency by reducing our accommodation costs.

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## What we do

### Our risk framework and priority risk areas

Our risk framework sets out our approach to regulation alongside our statement of regulatory approach and our Strategic Plan 2015-2018. Our risk framework can be found on [GOV.UK](#).

Our priority risk areas are:

- fraud and other financial abuse of charities
- safeguarding beneficiaries, particularly children and vulnerable adults
- misuse of a charity for terrorist purposes or to foster extremism
- other significant breaches of trust or non-compliance that significantly affect public trust and confidence in charities.

The risk framework outlines:

- how the Commission operates and oversees risk-based regulation through risk assessment and management
- how the Commission decides when and in what way it will engage
- the possible outcomes of its engagement.

### Registration

#### Deciding if charities meet the legal test for charitable status

We make a formal assessment of all applications for registration on a case-by-case basis using our risk framework.

We protect trust and confidence in charities by granting charity registration only to those organisations that properly pass the legal tests for a charity. We have strengthened our approach to assessing whether applicants are genuinely charitable this includes a more rigorous approach to verifying the information they provide us.

#### Countryside Alliance

This organisation applied for registration as a charity. Its purposes related to preserving, protecting and promoting the heritage and practice of activities related to wildlife, the countryside and wildlife management including hunting, shooting and fishing, together with the management of the natural environment, the promotion of game or game production; and the advancement of rural community life.

**Why we got involved:** We considered this application to assess whether the organisation is established for exclusively charitable purposes for the public benefit. This included considering each of its purposes in detail.

**The action we took:** After careful consideration, we concluded that some, but not all, of the purposes of the organisation are charitable for the public benefit. As its purposes were not exclusively charitable, it could not be registered as a charity.

**Impact of our involvement:** We rejected the application for registration, and published a decision document which explained why the purposes were beyond the scope of what the law recognises as charitable purposes.

### The Theosophical Society in England

This organisation applied for registration as a charity. Its purposes were to promote moral and spiritual welfare and the advancement of education through the promotion and study of Theosophy.

**Why we got involved:** We considered this application to assess whether the organisation was established for exclusively charitable purposes for the public benefit. In separate decisions taken in 1943 and 1957, the High Court decided that Theosophy was not a religion for the purposes of charity law, and we considered whether changes in the law since those decisions meant that the organisation could now be registered as a charity.

**The action we took:** After careful consideration, we concluded that the purposes of this organisation were exclusively charitable, being established for promoting moral or ethical improvement and the advancement of education for the benefit of the public.

**Impact of our involvement:** We registered the organisation as a charity.

Our decision to register or not to register an organisation as a charity, or to remove an organisation from the register, can be challenged in the First-tier Tribunal (Charity) by the organisation, its trustees, or a person affected by the decision.

Judgments of the Tribunal about whether organisations are established for charitable purposes can assist charities, the Commission and the wider public to understand the interpretation and development of the law.

We are making greater use of the registration process to identify organisations which, whilst charitable, might raise governance or compliance concerns for our regulatory work. We also implemented more focused post-registration monitoring of these charities.

#### Maintaining the register of charities

Our aim is to ensure that the register of charities is accurate and up-to-date and makes key information freely available to the public online. Our data is also used by many other public bodies, charities and research organisations as the basis for statistics about the charity sector in England and Wales. Charities are legally required to provide certain information about themselves and to do so promptly.

For reasons of accountability and transparency the online register displays key information about charities' purposes and operations. We highlight on the register charities that fail to comply with basic information requirements, such as filing annual returns and accounts, and charities that are subject to a statutory inquiry or, where we know about it, charities which have qualified accounts or are in an insolvency process. Each year we also remove charities that cease to exist or operate.

## Regulation

### Dealing with problems in charities

We deal with problems in charities in a number of different ways depending on the issue and how serious it is. If we decide to act, our regulatory engagement can range from concluding the trustees have matters in hand to opening a statutory inquiry.

Complex, serious, novel and higher-risk issues are more likely to trigger regulatory engagement with a charity.

We work with other agencies and regulators to ensure problems are dealt with and to avoid duplication and ensure effective, robust regulation. We also engage with the charity's trustees,

## Our powers

The Commission has a range of statutory powers that we can use to stop abuse and protect charitable assets and beneficiaries. Our powers include:

- information gathering powers, which enable us to obtain information or documents, or require named individuals to meet us and answer questions
- temporary protective powers, which allow us to protect charity property for a temporary period whilst we continue investigating
- remedial powers which allow us to implement long-term solutions to problems often identified by an inquiry.

Our temporary protective and remedial powers include:

- restricting the transactions that a charity may enter into
- appointing additional trustees
- freezing a charity's bank account
- suspending or removing a trustee
- appointing an interim manager.

Where there are serious concerns of abuse in a charity, we may open a statutory inquiry under section 46 of the Charities Act 2011. We may do this where we are concerned that there may have been misconduct or mismanagement in a charity, when its assets are at risk, or where there is need to protect public trust and confidence in a charity or charities. The purpose of an inquiry is to establish the facts. It is not in itself a determination by the regulator of wrongdoing in a charity, except where we may have to immediately use our legal powers. The ultimate aim is to stop abuse, ensure trustees comply with the law and put a charity back on a secure footing for the future. Opening an inquiry allows the Commission to use the full range of its information gathering and enforcement powers.

beneficiaries and/or employees and with third parties, including legal advisers, independent examiners and auditors (particularly where there are allegations of fraud or financial abuse).

### **Charities (Protection and Social Investment) Act 2016 – implementation of new powers and provisions**

During the year, a number of the provisions strengthening the legal framework for charities on fundraising and social investment came into force, giving us new powers to help us regulate more effectively in line with public expectations.

We consulted on our approach on the use of two of the new protective powers – to issue official warnings (s.1 of the 2016 Act) and to disqualify individuals from trusteeship and senior management positions for periods of up to 15 years (s.10 of the 2016 Act). We ran both consultations for 12 week periods over the summer in 2016, we held discussions with some of the key umbrella and professional bodies and received, respectively, 44 and 51 written responses. Both consultation exercises were helpful in ensuring that the final versions of our guidance provided the level of detail needed to understand the circumstances in which we would use these powers.

We used new or amended powers introduced by the Charities (Protection and Social Investment) Act 2016 eight times during the year, including directing actions not to be taken and issuing the first notice of our intention to issue an official warning. The total number of times we used the new powers or those updated by the 2016 Act, at 31 May 2017, was 26.

These figures on the use of our powers include use of existing powers which were updated, and also use of new powers. New powers include both the mandatory statutory notices we must service before using official warnings and discretionary disqualification powers, as well as final orders. This use of the new powers is in line with our expectations that the use of these powers would not affect the vast majority of charities, and would be confined only to those charities and individuals where the use of these powers would be a proportionate response to the seriousness of the risks involved.

The 2016 Act's provisions to extend the criteria for automatic disqualification of trustees have not yet been implemented. However we have been developing the necessary guidance and information for charities to ensure smooth implementation. We are also revising our materials relating to waivers; we can authorise these where it is clear in specific cases that an individual's contribution to the leadership of a charity should not be prevented as a result of automatic disqualification. We have worked on this guidance constructively with sector bodies and groups concerned with the rehabilitation of offenders.

### **Monitoring compliance**

Monitoring compliance is one way in which the Commission investigates and monitors concerns about abuse and non-compliance in the sector.

The Commission undertakes both proactive and follow-up monitoring of charities. Charities are identified for proactive monitoring on the basis of various risk factors, for example those operating in high risk areas, undertaking high risk activities, those which have previously reported regulatory issues or made commitments on their registration that we want to follow up. This year we have been using the data and information provided in annual returns and accounts to help identify which charities to monitor.

Monitoring may include:

- desk-based research
- corresponding with or interviewing trustees
- visiting the charity's premises
- inspecting the charity's financial records.

This may result in providing the charity's trustees with regulatory advice; setting an action plan and ensuring it has been implemented; or, in the most serious cases, opening a statutory inquiry.

The Commission's regulatory supervision and monitoring work includes appropriate and targeted scrutiny of accounts.

We always undertake follow-up monitoring when we have required trustees to take specific actions to obtain assurance and verify that they have acted on our regulatory advice.

## Enabling charities

The majority of our work with charities involves using our powers to help charities to operate more effectively. We have very little discretion about which permissions we give; if our permission is required then we are under a duty to consider whether or not we should provide it.

More complex cases can be resource intensive because of the technical issues involved or the complexity of the proposed transaction.

Examples include:

- mergers
- cases involving charities where other (non-charity) legislation applies (such as educational trusts and allotments)
- applications for whole board remuneration
- cases where there is opposition to the trustees' proposals, such as the sale of designated property
- dispute cases, although we only get involved where absolutely necessary
- authorisations in complex cases

In terms of volume, the top three types of orders we make involve:

- vesting in the Official Custodian for Charities
- disposal of property – mostly land
- trustee remuneration.

This year we implemented a new bulk (aggregated) vesting order process, where we can make bulk vesting orders on a monthly basis. This made the process more efficient, freeing up capacity for more time-critical work, and will give applicants who require this type of help greater clarity about when their vesting order will be made.

## Providing regulatory advice and guidance

For a charity to thrive and deliver its charitable aims it must have good arrangements for its governance and financial management. Its trustees must also understand their duties, roles and responsibilities.

The Commission actively promotes its web-based guidance to trustees and advisers using a range of channels, including its social media feeds, newsletters, blogs, presentations, email alerts and more recently webinars.

## Our work with other regulators and agencies

This year 16,731 charities declared an area of operation outside of England and Wales; these charities have a combined income of £15.95 billion. Of these 7,943 entered a combined figure of £6.65 billion for foreign expenditure.

The purpose of our international work is to ensure adequate support and expertise for the regulation of charities that operate both in England and Wales and other jurisdictions.

This includes targeted outreach to charities in the UK working internationally on core trustee duties including:

- monitoring and verification of funds spent overseas
- working with umbrella bodies to disseminate guidance and recommendations on moving money safely and verifying and accounting for funds
- taking action to prevent abuse and in some instances in collaboration with partners. Half of our regulatory alerts this year were aimed in part at charities which operate overseas
- ensure we remain sufficiently aware of and responsive to developments in international frameworks for charity regulation
- seek to modify international standards where appropriate
- support other regulatory bodies to establish effective regulatory frameworks, regulate fairly and transparently through sharing best-practice, experience and operational tools and procedures that are unique to us
- support the development of healthy and accountable charity sectors worldwide.

To regulate a diverse sector as effectively as possible, the Commission has built effective strategic and operational relationships with a range of other regulators, law enforcement agencies and government departments. Whilst the Commission vigorously protects its independence, effective collaboration and joined-up working is essential for effective regulation, particularly as we are a civil regulator and are not able to bring criminal proceedings ourselves.

We have worked with charity and non-governmental organisation regulators in the UK and EU. Our relationships with both OSCAR (the Scottish Charity Regulator) and the Charity Commission for Northern Ireland (CCNI) remain strong, with regular meetings to discuss regulatory policy and operational matters and joint work on accounting practice with OSCAR. We have also worked with international partners such as the Australian regulator on digital charity returns, and with China on charity law. Some of this work is part-funded by the Foreign and Commonwealth Office.



The Financial Action Task Force (FATF) is an inter-governmental body that sets the standards for fighting threats to international financial systems, including money laundering and financing crime. It has developed a series of recommendations including Recommendation 8 (R8) for the charitable (not for profit) sector.

The Commission, on behalf of the government and in collaboration with HM Treasury, has lobbied FATF for changes to R8 and its accompanying Interpretative Note (IN) and welcomed its decision to formally review these. This followed a series of roundtables and dialogue with representatives from the charity sector – particularly those operating internationally providing services and humanitarian relief – where the Commission collected evidence and representations as to how R8 and its IN could be amended.

In June 2016, FATF amended the R8 and the IN, both of which the Commission and representatives from the sector welcomed. The Commission represented HMG at FATF where these amendments were made. R8 now clearly recognises that not all non-profit organisations are particularly vulnerable to terrorist financing abuse but that some are by virtue of what they do and where they operate. Other changes make clear that interventions by countries to protect non-profit organisations from abuse must be proportionate and not disrupt or discourage legitimate charitable activity. This was a concern raised by a number of charities operating in other countries who argued that FATF's R8 was being used to limit the activities of non-profit organisations.

The UK will be subject to 'mutual evaluation' by FATF in 2018 and the Commission continues to work with other government departments – particularly HM Treasury and the Home Office – in preparation for this.

# 5

## Performance report

This section summarises our progress against the four strategic priorities set out in our **Strategic Plan 2015-18**.

The Commission uses a series of key performance indicators (KPIs) to monitor operational performance for its casework. The majority of these are internal facing KPIs, including a range of measures that track the number of cases we deal with and the average time taken to resolve cases. They also measure the number of accounts and annual returns filed on time and their quality.

Two of the KPIs are external facing – referred to as external performance indicators EPIs. This reports looks at some of our KPIs and our EPIs.

### Priority 1: Protecting charities from abuse or mismanagement

As we have seen in recent years, abuse of any kind in a charity damages the reputation of the whole sector, whether the abuse is deliberate or arises through mismanagement.

Since 2013, we have strengthened our approach to tackling abuse and mismanagement in charities. This continues to be a strategic priority and where we direct most of our regulatory engagement with charities.

#### Assessing risk and being informed by better data

This year we have been making better use of our data to prevent and detect abuse. Better use of data, along with application of the risk framework, has helped us to focus our resources on the cases that need it most.

The Strategic Plan acknowledges that in order to ensure the public can trust the charities we regulate to the standard that Parliament and the public expects, we must be a risk-based regulator focused primarily on enforcement and prevention.

To meet this expectation much of the focus over the last two years has been on delivering this strategic priority.

To strengthen the Commission's ability to operate as a proactive, data-driven, risk-led registrar and regulator we established a new Risk Assessment Unit (RAU) in December 2016. Its purpose is to develop a better understanding of the regulatory risks faced by the charity sector. The RAU will house a new and improved gateway triage process providing the initial risk assessment for the majority of complaints and requests coming into the Commission.

To enable this to happen the Commission is using data provided by charities, in their annual returns and on the register of charities, to assess different risks as set out in the risk framework and to ensure a consistent data-driven approach.

This unit will develop its analytical capability to identify future risks and potential emerging issues in charities. For example, it will identify trends in the issues reported by charities to the Commission as serious incidents. The RAU will also analyse data to inform the Commission's annual Business Plan.

#### Faster and more effective compliance work

This year we delivered sharp compliance and enforcement action, making confident use of our new powers to disrupt, prevent and sanction serious non-compliance and abuse of charities. We can demonstrate how tackling abuse increases compliance and trust in the sector. Better engagement with other regulators, government agencies and other bodies, exploiting data, and understanding risk and sector trends will continue to enable us to influence trustee behaviour and better detect and prevent the abuse of charities.

We absorbed an increase in our compliance work whilst also achieving significant progress in closing older cases.

- 22% reduction in the number of inquiries over one year old
- 248 charities subject to an inquiry at the end of the year (2015-16: 135)
- The number of new inquiry cases opened increased this year to 187 (2015-16: 52)  
For the following reasons:
  - a class inquiry opened during the year involving 74 connected charities
  - more charities becoming part of the double defaulters class inquiry
  - an increase in other charities being referred for inquiry in order to deal with serious regulatory concerns
- We opened 1,644 (2015-16: 1,327) operational compliance cases and closed 1,499 (2015-16: 1,309).

Our cases are often complex and the most serious cases involve working with other agencies. The use of compliance powers remained broadly similar to last year – 1,099 times (2015-16: 1,073).

An important part of our compliance role is protecting charity assets. This year we made two vesting orders to compel land to be transferred into the name of the Official Custodian, and used our powers 44 times to prevent property being disposed of temporarily or to restrict the transactions the charities can make.

The Commission continues to take action against individuals responsible for serious mismanagement or misconduct in charities. We gave legal direction to be taken by charities 90 times including directions to submit missing accounts or returns to rectify deficiencies in their financial controls and procedures. We appointed seven new interim managers – a temporary and protective step to manage a charity whether there has been misconduct or mismanagement or where its property needs to be protected. This brought the total number of interim managers managing charities at 31 March 2017 to 13.

The Commission is transparent about its interventions in charities, particularly when it uses its legal powers. We share the lessons learnt with other charities to help them deal with difficult situations and ensure they do not make the same mistakes, and to ensure they are accountable to donors, beneficiaries and the public.

This year we published:

- 67 statements of the results of our inquiries (2015-16: 35)
- 16 regulatory reports
- Our annual Tackling Abuse and Mismanagement publication

These publications achieved significant charity and national press coverage and charities often use these reports in their trustee meetings and training sessions.

### Reporting serious incidents

This year there was a slight increase in the number of serious incidents reported to us by charities with 2,181 serious incidents in 2016-17 (2015-16: 2,117).

## Whistleblowing to the Commission

We dealt with 142 causes for concern this year (2015-16: 143) – 17 came from auditors, 37 from independent examiners and 88 from charity employees.

## Proactive action

### Monitoring

We improved the way we proactively monitored charities and identified abuse and non-compliance, carrying out more individual inspection and compliance visits.

In 2016-17, we opened 503 monitoring cases and concluded 586 cases (2015-16: 462 and 426 respectively). We carried out 113 proactive inspection and compliance visits (2015-16: 106). We recorded a beneficial impact in 95.3% of our monitoring cases. These cases resulted in 42 action plans being issued and 39 charities being removed from the register on the basis they had ceased to exist or operate. They also resulted in one notice of intention to issue an official warning to a trustee.

We actively monitored newly registered charities where we had concerns that they might not function as stated at the time of application, for example concerns about low levels of charitable activity or about individuals involved in the charity. We also engaged with newly registered charities operating in high risk areas internationally and those which committed to undertake certain actions when they were registered. We monitored 47 charities as part of our proactive post-registration programme of monitoring.

We also undertook follow up monitoring of 227 charities that had been required to take certain actions, to verify that those actions had been taken.

Other follow-up work included:

- engaging with recently registered CIOs that had declared nil income and expenditure on their annual return to check that this was accurate
- acting on referrals and disclosures from other regulators where there were concerns about non-compliance.

### Reviews of charity accounts

During the year our team of accountancy experts looked at 894 (2015-16: 986) sets of accounts covering 607 (2015-16: 699) charities. As part of our proactive monitoring activities we reviewed 380 (2015-16: 377) accounts as part of themed reviews for particular issues and 514 (2015-16: 609) accounts to progress our regulatory casework.

Using our information powers that require charities to produce information and documents, we carried out 109 sets of detailed analysis of financial information to assist in identifying suspicious or unusual transactions. Informed by that analysis and our review of reports and accounts, we then conducted 80 books-and-records visits to charities.

## Financial distress

The closure of a number of charities during the year highlighted the importance of trustees managing financial difficulties. The public interest in charities (particularly high profile charities) that collapse due to financial difficulties has a major negative impact on public trust and confidence in charities.

In response, the Commission:

- produced a report on its proactive scrutiny and **review of various charity accounts that signal they may be in financial difficulty**
- included the theme of charities at risk of financial distress in its **programme of proactive monitoring and inspection visits**
- began a review of its core financial guidance.

Our reports contain details of wider lessons for trustees. They were based on the data in the accounts filed with us and the auditors' findings of charities facing financial difficulty. The reports highlighted the challenges that the current financial environment presents for charities and some of the successful strategies to adopt. They emphasised the essential role that charity trustees and senior managers have in managing situations of financial distress and how crucial it is that trustees address financial difficulties effectively, act in the charity's best interests, manage the charity's resources effectively and ensure the charity is accountable.

We concluded that those charities able to identify pressures and risks early are best placed to address them. We expect trustees to take seriously any concerns expressed by their charity's auditor or independent examiner and take appropriate action in response.

## Engaging effectively and sharing data

We work with the police, law enforcement agencies, regulators and across government. We have developed and maintained positive relationships with these partners and stakeholders. These arrangements are often framed by a memorandum of understanding (MoU). In 2016-17 we had 40 MoUs, and agreed six new or updated agreements during the year, including with the new Fundraising Regulator.

We enhanced our operational relationship with the Department for International Development (DfID) and worked collaboratively to suggest new initiatives to support and strengthen small and medium sized charities' skills and capabilities in managing humanitarian and development projects overseas. The partnership will provide a range of tailored training and resources to increase the capabilities of small and medium sized charities.

The Charities Act 2011 provides a legal framework to enable the Commission to disclose and receive information from other public authorities. Information exchanges with other agencies increased to 2,733 times, (2015-16: 2,332) and the number of times we requested and were provided with information grew 31% to 1,212 (2015-16: 922).

## Joint working with the Information Commissioner and the Fundraising Regulator

### Why we got involved:

In December 2016 the Information Commissioner issued monetary penalty notices to two charities for breaches of data protection legislation. These serious breaches were for practices that some charities considered 'common practice', which needed to cease immediately. A further 11 notices were then issued in early 2017.

### The action we took:

We contacted all of the relevant charities, to ensure that the trustees were fulfilling their legal duties and that all of the practices identified as a breach by the Information Commissioner's Office had been stopped.

Additionally, we worked with the Information Commissioner's Office and the Fundraising Regulator to ensure that the concerns were widely understood within the sector.

In December 2016 we issued a joint alert to the sector with the Fundraising Regulator reminding trustees that they must, in addition to following charity law requirements, ensure that there are systems in place to identify and comply with any data protection laws and regulations that apply to their activities.

### Impact of our joint working with the Information Commissioner and Fundraising Regulator:

In February 2017 the three regulators held a joint conference in Manchester for 400 attendees. The Fundraising and Regulatory Compliance Conference was aimed at helping charities and other fundraising groups comply with the law. The conference set out the regulatory requirements and expectations for fundraising bodies and their boards under current and forthcoming data protection legislation, and explained the individual remits of the three regulators.

## Encouraging the public to give more safely

As part of our commitment to safeguard charity donations and uphold public trust in charities we continued to promote the importance of giving to registered charities. We ran five campaigns this year to encourage the public to give more safely: at Eid, Christmas, Ramadan, and during the refugee and Nepal earthquake crises, linking these campaigns to our safer giving guidance.

At the start of Ramadan for example, we published 'top 10 tips' on giving safely to charities, which featured a quote from the Mayor of London and from the Muslim Charities Forum. We also worked with the Islam Channel and partner organisations, used social media, and conducted 46 radio interviews to advise the public on how to check if a charity is registered. We published a blog post about some of the positive projects that were delivered as a result of giving to registered charities during Ramadan which generated over 21,000 views, and was covered in a number of national publications.

In the lead up to Christmas, we published a joint press release and social media campaign with the Fundraising Regulator to raise awareness of the need to give more safely, whether via street collections or online. A number of local print and broadcast outlets picked up the story and our Director of Investigations, Monitoring and Enforcement was interviewed on the BBC One Show in November for a feature which also showed the public how to use our register.

We also reminded the public to give to registered charities at other times of increased giving, such as the launch of the East Africa Crisis Appeal by the Disasters Emergency Committee, or when we were made aware of a specific threat such as an online sham charity appeal, or following the conviction of a funeral director for fraud which resulted in a loss to charity of over £14,000.

## Priority 2: Enabling trustees to run their charities effectively

There were 951,533 trustee roles in charities regulated by us in England and Wales at 31 March 2017 and a significant number of positions saw a change of trustee last year. Most trustees are unpaid volunteers, and many benefit from our expert guidance, support and information.

It is an essential part of our regulatory role, and a strategic priority, to enable trustees to run their charities effectively in order to maximise the use of charitable resources. But we do so within a reduced budget, so we can rarely offer one-to-one advice.

In January 2017, we revised our Statement of Regulatory Approach to emphasise the importance of our enablement work.

This work falls into four main areas:

### **Public engagement and communications:**

engaging trustees to enable them to access the tools and resources required to fulfil their roles and meet compliance requirements.

**Charity Services:** making it easier and more efficient for trustees to work with us when they need permissions or other assistance, through better, more user-friendly digital services.

**Providing clear guidance:** providing clear, accessible, focused regulatory guidance to make it clear to trustees what they must do to comply with legal and regulatory norms.

**Working jointly with other bodies:** maximising our collaboration with third parties, such as charity funders, professional advisers and umbrella bodies to help improve trustee effectiveness.

Our enablement work involves all parts of the business that engage with charities.

## Public engagement and communications

### Public meetings

This year, we continued to hold public meetings across England and Wales, taking place in Llandrindod Wells, York and London. In total, these events were attended by over 450 delegates and focused on supporting trustees to understand their duties.

We were delighted to welcome the Prime Minister, Rt Hon Theresa May, to deliver the Annual Charity Commission Lecture at the Royal Society in London in January. The Prime Minister praised the work of the Commission and the important role that the sector plays in our society. Attendees also heard from the executive team who reflected on the progress we have made and our plans for the coming months.

In our focussed outreach work with charities this year, we reached over 692 charities and 1,180 charity representatives, mainly of small and medium sized charities. The Commission's Outreach team ran or spoke at 44 events and other engagements meeting over 1,000 delegates from 692 different charities, where we were able to provide regulatory advice for 783 delegates on core trustee duties, for 391 on managing speakers and on line content, for 500 on safeguarding issues and 298 on fundraising issues.

In addition, Commission accountants presented at 20 events to 1,549 delegates in support of the improvement of the standards of accounting and reporting and financial governance.

### Promoting wider learning

To promote wider learning we publish an annual report named 'Tackling Abuse and Mismanagement'. The report provides an annual overview of the Commission's compliance casework, and sets out how we help address the risks facing charities and use our regulatory powers to tackle abuse in charities. The report also demonstrates our proactive work, including visits and inspections.

The purpose of the report is two-fold: to account for the way in which we meet our strategic aim of promoting compliance in charities, and to help trustees learn the lessons from our casework in order to help them avoid similar problems occurring in their charities.

This year's report focused on poor governance, which is at the heart of much of our case work, including high profile cases regarding fundraising and financial abuse. It focused on the importance of a strong board of trustees within a charity to provide appropriate oversight, as well as strategic vision.

We also continued to publish individual case reports on a range of our compliance and permissions case work. These are published on [our website](#) and several led to coverage in the mainstream media.

"The work that William, Paula and their team at the Charity Commission are doing is so important. Because the reforms they are leading are strengthening the sector – and together with the new Fundraising Regulator – ensuring public confidence in our charities and the contribution they make in helping to meet some of the greatest social challenges of our time."

Prime Minister, Rt Hon Theresa May MP



## Trustees' Week campaign

In November 2016 we ran the seventh annual Trustees' Week. Supported by a coalition of charities, umbrella organisations, professional bodies and regulators, the campaign focused on stronger charities through good leadership. We used the week to celebrate and highlight the fundamental role and value of trusteeship, and encourage anyone interested in becoming a trustee to get involved and make a difference.

The week was also an opportunity to raise awareness among current trustees of the avenues of support and training resources available to help them fulfil their role effectively. Almost 100 events were held in connection with Trustees' Week throughout the UK; these were listed on the Trustees' Week website. We also hosted our first live webinar, aimed in particular at trustees who were unable to take part in an event. The webinar focused on the key points all trustees need to know.

Trustees' Week achieved a wide range of national, local and charity sector press coverage, as well as support from a Minister and prominent Parliamentarians. Several thousand tweets using the hashtag #TrusteesWeek were sent, helping to ensure the hashtag trended in the UK.

## Digital communications

We recognise that digital technology allows for cost-effective and timely engagement with trustees, and using emerging channels of communication such as social media continues to be a priority for the Commission.

We publish regulatory updates on our Twitter and LinkedIn page such as alerts on new and existing guidance, reminders around key accounts filing deadlines, and advice for the public on how to give safely. We have almost 40,000 followers on our corporate Twitter page, averaging around 120 new followers per week. For the first time webinars have engaged trustees on key duties and we publish a GOV.UK blog, to provide thought leadership and key information for the sector. Over the course of the year we published around 20 blogs which secured 5,000-6,000 page views per month. In addition to social media and promoting information, news and blogs on the website, our quarterly newsletter, 'CC News', is sent to the trustees on our database.

As part of Fraud Awareness Week and in collaboration with members of the Charity Sector Counter Fraud Group, we launched a new website dedicated to helping charities tackle fraud. The website – [www.charitiesagainstfraud.org.uk](http://www.charitiesagainstfraud.org.uk) – provides an initial point of reference for trustees, staff and volunteers about tackling fraud and includes guidance, top tips and case studies.

## Charity services

Our Charity Services functions are responsible for customer-facing digital services and for granting permissions.

The Commission's Transform Programme and digital strategy set out the programme of work to improve the digital delivery of our services. Central to our strategy is establishing good customer journeys that enable charities to access services they need, and allow trustees to manage day-to-day updates themselves online.

This year these improvements included the new online service Apply to Register a Charity (ARC), which has helped to reduce significantly the average time taken to register whilst ensuring that the process remains robust.

The number of applications for registration as a charity has been rising for three years, and in 2016-17 was up 2% on the previous year. There was also an increase in the number of registration applications for Charitable Incorporated Organisations, up 9% to 4891 (2015-16: 4,509).

Despite this substantial increase, we sped up the registration process. We also worked to ensure the process remained robust. Fast track application timeframes were down to 3 days this year, whilst average low risk registration timeframes decreased from 32 days to 23 days and the average timeframe for all registration applications (including high risk) was down to 55 days from 58 days the previous year.

In 2016-17 there were 8,368 applications (2015-16: 8,198), of which 6,045 were registered (2015-16: 5,169). This means that 2,323 applications (2015-16: 2,644) did not result in registration after we sought further information. We formally rejected 131 applications (2015-16: 90).

Charities' details were viewed on our online register 13.1 million times (2015-16: 8.1 million). This includes views via both our existing register and the beta portal in development, highlighting a significant increase and the value of our register.

The next phase of providing new online services is on track for implementation in 2017 which includes:

- Charity name change – an end to end fully-automated digital service for charity name change. The service will enable charities to amend their main name and add or remove a working name.
- Charity amendments – an automated digital service for filing amendments and unregulated changes.

One of the benefits of automating low-risk services like these is that we can redeploy staff to more strategic and higher risk work thereby focusing on charities that need greater scrutiny. It will also improve the quality of data on charities for our and the public's use.

We will also enable trustees to operate charities effectively and efficiently through the development and delivery of a 'charity portal'. This will improve access to guidance, targeted communications and self-service digital services measured by usage and customer satisfaction scores. The new digital services will include a new log in process to ensure better security and reduce fraud and an 'assisted-digital' service to help people access our systems.

### Permissions

This year we:

- Opened 1,670 permissions cases (2015-16: 1,582)
- Closed 1,523 (2015-16 1,617)
- Oversaw £9.8 billion income

We have streamlined the processes for permission seeking which will speed up case management. Some examples of permissions granted include:

- Enabling charities to change their purposes and amend governing documents
- Where no other power is available to a charity, we make schemes to make the amendment sought. During the year we made 87 cy-près schemes to change the purpose of a charity, which allowed funds to be applied for charitable purposes similar to the original purposes. We also made 48 administrative schemes altering the provisions of a charity's governing document
- Making orders to authorise a range of transactions that would not otherwise be possible. These included consents to disposals of land at an undervalue or to a connected person, or enabling a trustee to be paid in special circumstances. We also authorised 20 payments which charities were not under a legal obligation to make, but the trustees felt under a moral obligation to do so.

Our decisions to give permissions to charities can be contentious, and charities can face objections from those opposed to their plans. Most of our permission decisions can be challenged in the Tribunal, and this year we faced three appeals against our decisions to give permissions to charities. We successfully defended all of these appeals.

## Providing clear guidance to trustees

For a charity to thrive and deliver its charitable aims it must have good arrangements for its governance and financial management. Its trustees must also understand their duties, roles and responsibilities. The Commission must support trustees by updating our guidance.

To help trustees to understand their basic financial responsibilities the Commission published a new version of a key piece of guidance 'Charity finances: trustee essentials' (CC25). This guidance, which supports trustees in managing charity resources including financial controls, staff and volunteers, received 13,045 online views.

## Fundraising

Given the continued interest in fundraising-related issues generated this year, we updated our CC20 guidance 'Charity fundraising: a guide to trustee duties'. The Commission does not have responsibility for regulating fundraising practice, but we know that poor fundraising practices affect trust and confidence in charities and we hold trustees to account for their oversight of their charity's fundraising.

CC20 makes clear to trustees that they have ultimate accountability. It sets out six clear principles that trustees must follow:

- Plan effectively
- Supervise your fundraisers
- Protect the charity's reputation and other assets
- Comply with fundraising law
- Follow recognised standards
- Be open and accountable.

Our CC20 guidance on charity fundraising was issued at the same time as an update to the Commission's checklist of 15 questions which trustees should consider to enable them to fulfil their duties and safeguard their charity's assets, identify critical issues and strengthen the quality of the charity's governance. This guidance received a significant 131,555 page views during the year.

Trustees are often faced with difficult decisions including sometimes the need to take or defend legal proceedings. During the year guidance was

published which clarifies the issues that trustees should consider during litigation.

The Commission actively promotes its web-based guidance to trustees and advisers using a range of channels, including its Twitter feed, news items, newsletters, blogs, presentations, email alerts and more recently webinars.

## Ethical Property Foundation

The Commission worked in partnership with the Ethical Property Foundation (EPF), having developed a referral arrangement to support charities with advice and information relating to their estates and facilities.

We refer charities to the EPF via its website and telephony service, for advice on land and property. EPF can provide free advice and referrals to professional partners in more complex cases for advice and support at reduced rates.

In 2016-17 the EPF supported 353 charity cases via workshops and tailored support (261 in 2015), a further 122 charities received training. As a result of these initiatives, the organisations saved an estimated £837,000. At least four were saved from closure and six more did not suffer loss of service as a result of intervention.

### Trustee Awareness Project

In September 2016 the Commission initiated a Trustee Awareness research project. Funded by the Office of Civil Society in partnership with the Cass Centre for Charity Effectiveness (CASS CCE), the Cranfield Trust and the National Council of Voluntary Organisations (NCVO), the research project will provide:

- analysis of the current levels of trustees' awareness of their duties and responsibilities
- analysis of the current state of charity trusteeship in England and Wales
- understanding of the sources of support for trustees and the levels of take-up of that support
- a baseline for a possible future longitudinal study.

This will ultimately offer the sector a better understanding of the state of trustees' understanding of their duties and responsibilities and will allow the Commission to further direct its support and better tailor and communicate guidance to provide trustees with the necessary skills and understanding to fulfil their roles and responsibilities effectively.

The report will be published later in 2017.

## Working jointly with others

We continue to work in collaboration with others, focussing on joint working, sharing data and engaging with the sector.

The Commission ran or spoke at almost 100 events in 2016-17, reaching thousands of charity representatives from across England and Wales. The events covered a wide variety of topics including: good governance; trustee duties; financial management; due diligence and monitoring; managing events, speakers and publications as charities and sending money internationally. The Commission partnered with a number of other agencies at events, including HMRC and a number of umbrella groups to promote and explain gift aid.

We also hosted a series of events in conjunction with the Association of Chairs, inviting chairs of charities to meet and discuss current issues and understand how we can continue to support them in their role.

## Priority 3: Encouraging greater transparency and accountability by charities

### Register of charities

Our register of charities is key to accountability and transparency. Providing the public with accurate, up-to-date information about registered charities, including Annual Return and accounts information, helps give reassurance and confidence that the charities they support act with integrity, make effective use of their resources and are well managed.

There were 167,063 charities on the register as at 31 March 2017: 6,045 charities were registered over the course of the year, 3,684 of which were Charitable Incorporated Organisations (CIOs). 4,556 charities were removed from the register during the year.

Of the total number of charities registered 7,151 declared an income of more than £1 million and 86,103 had an income under £25k.

We protect trust and confidence in charities by granting charity registration only to those organisations that properly pass the legal tests for a charity.

At the strategic level, we embarked on a two-year programme which includes:

- a review of certain types of charities on the register
- a continued review of the descriptions of purposes in the Charities Act 2011
- a review all of the Commission's published guidance on charitable status and related matters.

This year our review of types of charities looked at the registration of charities established for the advancement of health through the provision of complementary and alternative medicine. The review included a legal and factual analysis of the basis for accepting these organisations as charities and a full consultation. Following publication of the results of the review, any resulting conclusions and recommendations will be implemented on the register.

## Registrar of charities

This year we appointed a Deputy Registrar, signalling a renewed focus on ensuring the register of charities is up-to-date, accurate and fit for purpose. The new Registrar function provides a single central point of authority and accountability for the register and its contents to ensure the fitness for purpose, accuracy, integrity and security of register data. This role includes taking a lead on the annual return programme, which is a key source for the register data.

We improved the speed of removing non-charities to promote trust in charities on the register and in regulatory effectiveness. One way we have done this is by identifying and making contact with charities that default on their reporting obligations. This has led to faster identification of charities that have ceased to exist and their subsequent removal from the register; we removed 4,565 charities from the register in 2016-17 (2015-16: 4,442).

### 1 Click Charitable Trust

**Why we got involved:** The organisation had minimal assets and had undertaken very low level charitable activity since it was registered in 2010. It was unable to present a realistic plan for future income or charitable activity. The organisation had applied for business rate relief, and the local authority had refused this because the relevant property was not being used for charitable purposes.

**The action we took:** We met with the trustees and scrutinised the organisation's accounts and records. We concluded that it was not operating and we were legally obliged to remove it from the register.

**Impact of our involvement:** The charity was removed from the register.

## Fresh Start Housing

**Why we got involved:** Media reports alleged that the organisation, which helped homeless persons find accommodation, was making referrals to a letting agency owned by one of the trustees, which received more than £5.5 million in housing benefit. We had concerns that the organisation may not be established for exclusively charitable purposes, given the circumstances of its establishment and how it had operated.

**The action we took:** After visiting the organisation, interviewing trustees and inspecting accounts and records, we found that from the time the organisation was established it used the services of one letting agency owned by a trustee which had benefited considerably. The trustees failed to demonstrate that they had taken independent decisions for exclusively charitable purposes. There was no clear arm's length relationship or separation between the organisation and the letting agency, so we concluded that the organisation was not established for exclusively charitable purposes.

**Impact of our involvement:** The charity was removed from the register.

## Annual Return and accounts

### Changes to the Annual Return this year

This year we embarked on an ambitious two year development plan for completing and submitting Annual Return. We simplified the process for around 70,000 of the smallest charities.

Further developments will mean that charities will be able to update their charity and trustee details throughout the year. We are reducing the number of questions and in 2018 we will introduce trigger questions so that charities only get questions that are relevant to them. We consulted widely about our plans for change in 2016 and 90% of those that responded supported the proposals. We are also improving our guidance on how to complete the Annual Return.

In 2016-17 we received 85.2% of Annual Return by the deadline (87.5% in 2015-16). We also received 81% of accounts by the deadline. This was lower than the previous year partly due to the number of CIOs. Unlike other types of charities, all CIOs must file accounts, irrespective of income. We have continued our efforts to encourage charities to file accounts on time and to promote better accounts and annual reports through our accounts monitoring work.

We have worked with:

- the Office of the Scottish Charity Regulator (OSCR) – to simplify the charity accounting framework and ensure that it keeps up-to-date with changes to the UK Generally Accepted Accounting Practice;
- accounting professional body ACCA – to produce a guide for international not for profits to (a) applying the international financial reporting standard for small and medium-sized entities and (b) the development of good practice in reporting by not-for-profits to enhance the accountability by non-UK organisations receiving charitable funds
- the Financial Reporting Council – to take a first step towards digital accounts by jointly issuing a charity taxonomy extension
- Office of the Scottish Charity Regulator (OSCR) and Charity Commission for Northern Ireland (CCNI) – regarding matters of material significance reportable by auditors and examiners
- the accountancy profession – to raise standards with common guidance.

### Double defaulters class inquiry

Double defaulters are charities that have defaulted on their statutory obligations to meet reporting requirements by failing to file their annual documents for two or more times in the last five years.

During the year 74 charities became part of the class inquiry; this specifically tackles double defaulters who fail to comply after warnings. All the charities involved in the inquiry were compelled to make good the default to file the outstanding accounting documents. We used our powers and issued 29 production orders to obtain financial information to assist our investigations into the financial affairs of charities that were in the class inquiry.

As a result of our class inquiry 35 charities have made good their default and filed the required outstanding accounting documents during this financial year. As a result, £35.2 million of charity funds is now visible to the public on our register.

The class inquiry also confirmed that a further 18 charities had ceased to operate and we removed them from the register of charities.

### Promoting a better quality of reports and accounts

We used charity accounts to identify issues and challenges facing the sector proactively. Our team of accountants scrutinised 894 sets of accounts for 607 charities (casework – 514 and themed/project – 380) covering an income of £3.5 billion.

From our four reports on the quality of charities' accounts we identified that small charity accounts needed to improve the most, and that small charities who use an independent examiner, or our report and account templates, achieved better results – up to 88% meeting the basic quality standard. We reported on low charitable expenditure and high governance costs, highlighting that the sector was still preparing accounts with too many flaws and an inadequate explanation of their performance. Our detailed findings can be found on [GOV.UK](https://www.gov.uk).

We also found that accounts' quality improves with the size of the charity. Too few charities are reporting on how well they are serving their beneficiaries. Many of our inquiry cases involve private benefit. We also noted that of those charities reporting under statements of recommended practice (SORP) that explain how charities should report, only 74% had included a note on trustees' pay, as required by the SORP. This is an area that the new SORP addresses by specifying more clearly what must be disclosed.

50% of the charities' annual reports scrutinised demonstrated a clear understanding of public benefit in 2016-17 (42% in 2015-16) and 75% of charity accounts were of acceptable quality (77% in 2015-16).



We followed up with all the charities on shortcomings identified in our review, giving advice and guidance or requiring resubmission.

This year we also worked with the accounting bodies to change auditing standards for the sector, following the collapse of the Keeping Kids Company charity. The Public Administration and Constitutional Affairs Committee recommended in its findings that the guidance on reporting by auditors to the Commission should be reviewed. Auditors have a duty to report matters of material significance to the Commission, and working with the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland we consulted on new guidance.

The updated guidance published in April 2017 applies UK-wide and amongst the nine matters we expect to be promptly reported to us it requires auditors to report uncertainties of going concern. Assisted by HM Treasury we also addressed concerns raised by the accounting profession about their reporting to us. We achieved this by working with the Consultative Committee of Accountancy Bodies on updating their guidance to reassure auditors that they can report to us without contravening their duties under the money laundering regulations.

## Priority 4: Operating as an efficient, expert regulator with sustainable funding

### Transform Programme

We are in the third year of a HM Treasury-funded £8 million programme to redesign our operating model and business processes to achieve greater efficiency.

The first two years of the programme focused on laying the foundations for transformational change in the Commission to enable efficiency savings and build its reputation as an efficient, risk-led regulator.

The Transform Programme resulted in the following improvements in performance this year:

#### Risk-led regulation

In order to ensure the public can trust the charities we regulate, we must be a risk-based regulator focused primarily on enforcement and prevention. To meet this expectation much of the focus over the last year has been on improving our approach to risk in the sector.

We improved our data quality, and began to use bespoke technology to assess regulatory risk in individual cases and across the sector. For example, automating our services in low-risk situations means that we can redeploy staff to more strategic and higher risk work, focusing on those requiring greater scrutiny. This will also improve the quality of data on charities. We use various risk factors for the purposes of proactive monitoring and our Risk Assessment Unit now houses a new and improved gateway triage process.

### Accountancy services peer review

As part of our efficiency and effectiveness drive, we asked another government department to carry out a peer review of our accountancy services in the summer of 2016. This was for assurance that our expert accountancy work was being as effectively deployed as possible and to learn from and also share best practice with other agencies. The recommendations on improving the format of reporting, more closely aligning accountancy expertise to support the highest regulatory risks, and enhancing the expert support services to our operational and inquiry teams have all been implemented.

### Operational efficiency and effectiveness

We developed end-to-end business processes and rules covering casework, archetypes (typical cases), and designed a single casework system with an automated workflow.

This is leading to more consistent regulation, better processes and faster granting of permissions and consents – e.g. we had 98,458 emails, calls and letters last year (2015-16: 102,147) and 90% of customer enquiries were responded to within 15 working days (2015-16: 90%).

We have successfully executed reorganisations of the Policy and Communications Directorate and of the Operations Directorate, including Infrastructure Services.

### Exploit digital

We are providing digital services to enable charities to access self-serve applications more easily. This will improve processing speed and provide better data, with the time gained enabling us to focus on high priority casework.

As part of our digital strategy we launched our new online Annual Return and our online registration service (ARC). New automated digital services, including charity name change and charity amendments, will be delivered in 2017-18. This will include a new log in process to ensure better security and reduce fraud and an 'assisted-digital' service to help people access our systems.

### Commission culture

The increasing demands placed on our shrinking workforce in particular during a period of transformational change have tested our staff, as reflected in the staff survey results. However staff have demonstrated a diligence and commitment to the Commission that has enabled substantial and lasting improvements to our regulatory and operational performance.

We launched a workforce plan, skills' survey and leadership development and staff training programmes. Our employees recorded an average of 3.9 days each on learning activities.

We recognise that strong leadership is essential and launched a leadership programme for our 30 most senior leaders; the programme was popular and we are extending it in 2017-18 to over 50 managers.

We have also been working on an ambitious project to map the future core skills and knowledge the business needs. This will be rolled-out throughout 2017-18 and will support recruitment, induction, development pathways and performance.

## Sustainable funding

Continuing to provide effective charity regulation within our current budget will be a significant challenge. As a responsible regulator, we must explore ways to ensure we have the funds that we need now and in the future, to regulate charities in a way that means the public can have trust and confidence in them. We plan to consult with the sector on our sustainable funding model, and what this means for charities and the Commission later in the year, subject to Treasury approval.

## Complaints and the Parliamentary Ombudsman

The Commission operates a two stage internal process for considering complaints about its administration. Stage one is an opportunity for fresh consideration within the team dealing with the original issue. Stage two is an arm's length review if the matter has not been resolved.

The number of complaints that reached stage two decreased from 30 to 13 this year. We generally deal with three main types of complaints at stage two – insufficient regulatory intervention, mistakes/unclear or incorrect advice and delay/timeliness.

Of the 23 issues considered as complaints, we partially upheld four issues (compared to 47 issued raised and 11 partially upheld last year).

The Ombudsman accepted one complaint for investigation this year (compared to seven last year). One more case is being assessed at the time of writing.

## FOIs

We received and responded to 636 Freedom of Information requests during the year (2015-16: 630). Of these 89% were responded to within statutory timescales.

## External Performance Indicators

Two of our KPIs are External Performance Indicators (EPIs).

The first EPI tracks the percentage of our compliance casework which is classified as having a beneficial impact on the sector. On the conclusion of each case, our caseworkers assign an outcome code that reflects the impact of our work – these codes are subsequently used to evaluate beneficial impact. In 2016-17, 90% (2015-16: 85%) of our compliance cases were classified as having a beneficial impact on the sector, meeting the target set at the outset of the year.

The second EPI is twofold and tracks the overall level of public trust and confidence in (i) the charity sector and (ii) the Charity Commission – measured on alternate years by a survey of over 1,000 people conducted by a professional research firm.

In 2016 trust and confidence in charities was measured at 5.7 (where 0 is no confidence and 10 is full confidence), representing a widely anticipated fall (from 6.7 in 2014) following a small number of high profile charity governance failures involving finance and fundraising. The Commission and charities continue to work to identify and address the causes of such failures.

In 2017, trust and confidence in the Commission was measured at 6.0, holding steady from the previous survey in 2015. In addition 88% of the public agreed that the Commission's role is essential or very important. 71% of the public said seeing that a charity is registered reassures them.

# 6

## Legal annex

This Legal annex gives an overview of the legal challenges against our decisions during the year and the current trends in the First-tier Tribunal (Charity) (FTT). It also contains reports of significant legal decisions taken by us, the Tribunals or the Courts about charity law and regulation.

As in the previous financial year, there continued to be a small number of legal challenges, relative to the significant number of legal powers we exercised: 10 new cases in the FTT, and three new cases in the Administrative Court. We successfully defended our decisions during the year, with no decisions overturned by a Court or Tribunal.

Our legal team also manages our decision review service, which offers an internal review of many of our decisions. We undertook 21 decision reviews during the year, a significant increase (2015-16: 14). Of these, eight decision reviews upheld the original decision, five overturned the original decision, three were withdrawn or discontinued and five are ongoing.

### Trends and developments

#### • Early resolution of cases

We continue to encourage early resolution of cases. Of the 11 cases concluded during the year, seven were resolved without a full hearing before the Tribunal. In some cases, we have asked the FTT to stay (pause) the legal proceedings while we seek to negotiate a settlement (see, for example, CA/2016/0007 & 0009 *Plitnick*) or while we complete a decision review under our internal procedure (see, for example, CA/2016/0008 *Cambridge Islamic College*). In some cases, this will lead us to reverse our decision, leading the appellant to withdraw the appeal (see, for example, CA/2017/0003 *The Chapel in the Garden, Bridport*).

#### • Defending our decisions not to investigate

In two cases this year, individuals brought judicial review proceedings in the Administrative Court seeking to compel us to investigate their concerns about charities. In each case, we applied our risk framework and decided not to investigate further, based on the evidence. The Administrative Court upheld both of our decisions, dismissed the judicial review proceedings and ordered the individuals to pay our legal costs.

#### • Cases continue to clarify the Tribunal's jurisdiction and procedure in charity appeals

In two cases, the FTT confirmed that it could not hear appeals against our decisions not to make a direction requiring a charity to change its name under section 42 of the Charities Act 2011 (CA/2017/0001 *Leeds Cat Rescue*, decision of 16 January 2017; CA/2016/0002 *Hospice Aid UK*, decision of 13 April 2016). By contrast, where we did make a direction, this could be challenged in the FTT (see, for example, CA/2016/0008 *Cambridge Islamic College*).

The Upper Tribunal also confirmed in the case *Abdul Razzaq and Javaid Malik* [2016] UKUT 0546 (TCC) that the FTT has jurisdiction to join a party to proceedings even after its substantive decision. This is a discretionary decision depending on the facts of the case – the FTT ultimately decided not to join these applicants: see CA/2014/0016 *Anique*, decision of 24 March 2017.

In each of these cases, the Tribunal upheld the Commission's view of its jurisdiction and procedure.

## Significant decisions

### Cases in the Court of Appeal, the High Court and the Tribunals

Trustees of Manchester New Moston v The Charity Commission for England and Wales: [2017] UKUT 0134 (TCC)

*(Upper Tribunal – inquiry decision and scope of disclosure/cross-examination before Tribunal)*

This case was a challenge to the Commission's decision to open a statutory inquiry under section 46 of the Charities Act 2011 (the 2011 Act) into this charity, a congregation of Jehovah's Witnesses. The purpose of the inquiry was to investigate regulatory concerns about safeguarding of children at the charity.

The First-tier Tribunal (Charity) (FTT) had upheld the Commission's decision to open the inquiry, in April 2015. This Upper Tribunal case comprised an appeal by the charity's trustees against the FTT's substantive decision, as well as two related appeals of case management directions made by the FTT in preparation for its hearing.

The Upper Tribunal dismissed all three appeals, upholding the FTT's decisions and, ultimately, the Commission's decision to open the inquiry. The Upper Tribunal case provides helpful commentary on how the FTT should deal with discrimination arguments under the Human Rights Act 1998, as well as important procedural questions about the scope of disclosure and cross-examination in a 'review' case before the FTT under section 321 of the 2011 Act.

In the substantive appeal, the trustees argued that the FTT had made errors of law in dismissing their argument that opening the inquiry discriminated against them in breach of Article 14 of the European Convention on Human Rights, meaning that the Commission had acted unlawfully under section 6 of the Human Rights Act 1998.

The Upper Tribunal agreed that the FTT had either applied the wrong legal test for when Article 14 is engaged, or used the wrong terminology to describe this test (paragraph 93 of the decision). However, the Upper Tribunal agreed with the Commission that this error was of academic interest only, because the FTT went on to consider whether Article 14 was in fact breached, and reached a permissible conclusion, on the evidence, that there was no discrimination (paragraphs 94 to 97). This meant that the FTT's decision would be upheld and the substantive appeal dismissed (paragraph 98).

The first case management appeal related to the disclosure of information and documents that the Commission had redacted in order to protect the identity of complainants. The FTT had decided that the redacted material was not relevant to the pleaded case, and had given a direction under Rule 15 of its Rules that the material need not be disclosed.

In their appeal against this direction, the trustees sought undisclosed versions of the documents, arguing that the redacted material was relevant to their case and disclosure was required under the FTT's Rules and the principle of open justice. The Upper Tribunal considered the legal principles in detail, alongside the procedural history of the FTT case. Ultimately, the Upper Tribunal decided that, in the circumstances of the case, the FTT was entitled to give the direction it did and there was no error of law (paragraph 48 of the decision).

The second case management appeal related to the scope of cross-examination of the Commission's witnesses before the FTT. The FTT had previously given a direction to manage the scope of cross-examination, which required the trustees to set out the matters on which they wished to cross-examine the Commission's witnesses and to explain how this would advance their pleaded case. The trustees had unsuccessfully appealed

against this procedure at an earlier stage, and were now appealing against the FTT's subsequent ruling limiting the scope of cross-examination. Again, the Upper Tribunal considered the legal principles alongside the procedural history. The Upper Tribunal upheld the FTT's ruling, finding that it was within the proper ambit of the Judge's discretion and did not involve a material error of law (paragraphs 63 to 66 of the decision).

The Upper Tribunal also commented more generally that it would be unusual for cross-examination to be permitted in 'review' cases under section 321 of the 2011 Act, as in such cases the FTT is reviewing the Commission's decision rather than acting as a fact-finder itself.

Read the Upper Tribunal's decision [here](#).

### **Watts v Stewart & Ors [2016] EWCA Civ 1247**

*(Court of Appeal – legal status of almshouse residents under land law; scope of charity proceedings under section 115 Charities Act 1998; application of Human Rights Act 1998 to almshouse residents)*

This was a Court of Appeal case raising several important legal questions about almshouse charities and in particular the procedure for evicting almshouse residents. The case arose out of a dispute between trustees of an almshouse charity and a resident who they wished to evict.

The Commission formally intervened in the case, alongside the National Association of Almshouses and The Secretary of State for Communities and Local Government, in order to explain its role as charity regulator in England and Wales and to put forward its opinion about the relevant legal framework.

There are three important points arising from the Court of Appeal's judgment.

First, the Court of Appeal rejected the defendant's argument that she occupied the almshouse property as a tenant, which would have granted her additional rights under land law. The Court of Appeal concluded, instead, that she held a personal licence to occupy the property under the terms of an appointment letter issued by the trustees. In reaching this conclusion, the Court of Appeal applied and approved the previous judgment of the Court of Appeal in *Gray v Taylor* [1998] 1 WLR 1093.

Secondly, the Court of Appeal held that the proceedings were not 'charity proceedings' within the definition in section 115(8) of the Charities Act 2011. This meant that the trustees were not required to seek the Commission's consent before starting the proceedings. The Court of Appeal reached this conclusion because it found that proceedings for possession of an almshouse property were not to do with the 'internal administration of the charity'.

Thirdly, the Court of Appeal dismissed the defendant's argument that the procedure for her eviction discriminated against her in breach of her rights under Article 14 of the European Convention on Human Rights, in connection with her Article 8 rights. The Court of Appeal was not required to decide whether the charity was a 'public authority' for the purpose of the Human Rights Act 1998, as this had been conceded by the defendant in the lower court and the Court of Appeal refused permission to withdraw the concession.

However, the Court of Appeal went on to consider, in detail, whether the legal position of almshouse residents was consistent with human rights law. There is useful commentary on the various stages of the human rights argument, although the Court did not ultimately need to reach a conclusion on

each point. Ultimately, the Court concluded that the denial of security of tenure to almspersons was clearly justifiable under the Human Rights Act 1998 as a proportionate measure which secures a fair balance between the interests of charities and current and future almspersons. This meant that the principle in *Gray v Taylor*, approved in this case, was not in breach of human rights law.

The defendant has sought permission to appeal this judgment to the Supreme Court. At the time of writing, the Supreme Court had not yet issued its decision on whether to grant permission to appeal.

Read the Court of Appeal's judgment [here](#).

### **The Charity Commission for England and Wales v Stephen Hunt: [2016] UKUT 0210 (TCC)**

*(Upper Tribunal – starting trigger for the Tribunal's 42-day time limit for an appeal)*

In this appeal, the Upper Tribunal was called on to decide when the time-limit for bringing an appeal in the First-tier Tribunal (Charity) (FTT) starts.

The case was focused on the wording of Rule 26(1) of the FTT's **Rules of Procedure**, which specifies the time limit for starting a charity appeal in the FTT. There was no dispute over the time period, which is 42 days for charity cases. The issue was when the 42-day time period started. Rule 26(1) provides two options:

- a. if the appellant was the subject of the decision to which the proceedings relate, within 42 days of the date on which notice of the decision was sent to the appellant
- b. if the appellant was not the subject of the decision to which the proceedings relate, within 42 days of the date on which the decision was published.

The appellant was seeking to appeal a decision by the Commission to refuse to constitute a Charitable Incorporated Organisation (CIO) and register it as a charity, under section 208 of the Charities Act 2011 (the 2011 Act). This decision can be appealed to the FTT under section 319 and Schedule 6 of the 2011 Act, including by the appellant as one of the people who made the registration application to the Commission.

The appellant was initially informed that the application was refused on 15 June 2015. He asked the Commission to conduct an internal review of this decision. The internal review upheld the earlier decision and the appellant was sent the review decision on 31 July 2015. The Commission published a summary of its review decision on its website on 4 August 2015.

The appellant filed a Notice of Appeal with the FTT on 15 September 2015. The issue was whether this Notice of Appeal was filed within the 42-day time limit.

The appellant argued that the time limit started on 4 August 2015, when the decision was published on the Commission's website. He argued that Rule 26(1)(a) of the FTT Rules did not apply, since the 'subject of the decision' was the potential charity, not him as an individual promoter of the charity. He argued that, under Rule 26(1)(b), the time limit only started when the Commission published the decision on 4 August 2015. The appellant's argument was accepted by the FTT.

On appeal in the Upper Tribunal, the Commission argued that time started to run on 31 July 2015, when the review decision was sent to the appellant. The Commission presented two alternative arguments:

- a. Under Rule 26(1)(a), the appellant was the 'subject of the decision', as one of the persons who made the application. The intended

charity never came into being, because the Commission refused to constitute it as a CIO. It could not, therefore, be the 'subject of the decision'.

- b. Alternatively, under Rule 26(1)(b), the decision was 'published' in respect of the appellant on 31 July 2015, when it was sent to and received by him personally – rather than the later date on which a summary was placed on the Commission's website. The Commission explained that not all of its decisions are published and that the appellant's argument (and the FTT's decision) would mean that the time limit did not start to run for many decisions that would be challengeable indefinitely.

The Upper Tribunal accepted the Commission's arguments. The Judge agreed that Rule 26 should be construed in such a way that an applicant for the constitution and registration of a CIO, who has been served with notice of a decision of the Commission refusing their application, must bring an appeal within 42 days of the notice. The Judge decided that it could not be correct, as a matter of principle, that the applicant could simply delay bringing an appeal and seek a further 42 days if and when the decision is placed on the Commission's website (see paragraph 21 of the decision).

The Upper Tribunal agreed that both of the Commission's arguments were acceptable ways to achieve the right outcome. On balance, the Upper Tribunal decided the case based on Rule 26(1)(a): it held that the appellant was the 'subject of the decision' (paragraph 22 of the decision). As a result, the appeal was brought out of time.

The Upper Tribunal remitted the case to the FTT so that the appellant could seek an extension of time from the FTT, which it was entitled to grant as a

matter of discretion under Rule 5(3)(a) of the FTT's Rules. However, the appellant did not pursue an extension of time and so the case was brought to an end.

Read the Upper Tribunal's decision [here](#).

### **CA/2016/0001 The 1Click Charitable Trust** *(First-tier Tribunal – removal of a charity from the register of charities under section 34 of the Charities Act 2011)*

In this case, the Commission had registered the charity in 2010 on the basis of assurances from the charity's promoters that it would soon meet the minimum income threshold for registration (£5,000) under section 30 of the Charities Act 2011 (the 2011 Act).

However, the charity's annual income did not reach this threshold and for several years was less than £5 per year. As a result, the Commission wrote to the charity to indicate that it intended to remove the charity from the Register of Charities on the basis that the charity did not operate. The charity was granted an extension of time to respond to this letter, but did not ultimately submit a response and it was removed from the Register in February 2016.

The charity brought an appeal in the First-tier Tribunal (Charity) (FTT) against the Commission's decision to remove it from the Register under section 34(1)(b) of the 2011 Act. The charity argued that the Commission should have made further enquiries before removing it from the Register and that its decision was flawed.

As this was an 'appeal' case under section 319 of the 2011 Act, the FTT made clear that its role was to consider the decision afresh (section 319(4) of the 2011 Act), meaning that it had to decide whether it would, on the basis of the evidence before it, exercise the statutory power



to remove the charity from the Register. It was not relevant for the FTT to consider the charity's various arguments that the Commission had acted unlawfully, in bad faith or with maladministration in making its decision (see paragraph 9 of the decision).

The FTT commented that the question of whether a charity does or does not operate is a question of fact to be assessed in every case (paragraph 17 of the decision). The FTT considered the evidence carefully (paragraphs 11 to 16), and came to the conclusion that the charity does not operate. This was because it had undertaken negligible charitable activity since its inception and that it had submitted no evidence of having adopted a structured approach to generating funds in order to operate in the future (paragraph 17).

While the FTT expressed sympathy with the charity's inability to obtain grant funding, it did not accept that a charity with wide discretionary objects but low income was necessarily unable to operate. The FTT observed that many small charities are extremely active in furtherance of their objects and that they are frequently innovative in the face of funding difficulties. This charity became dormant as it was content to do nothing at all, other than write letters asking for funding (paragraph 18).

The FTT also commented that the charity had not been able to demonstrate a continuing effort to obtain funding in order to pursue its objects. The FTT considered that the trustees had adopted an insufficiently business-like approach to the running of this charity and that this would in turn have hampered its ability to raise funds. There was also a lack of attention to basic governance arrangements which would have been evident to prospective grant-makers (paragraph 19).

As a result, the FTT confirmed the removal of the charity from the Register of Charities under section 34(1)(b) of the 2011 Act.

This is an important case for its interpretation and application of the criterion for removing charities from the Register of Charities under section 34(1)(b) of the 2011 Act. The charity was not removed from the Register because its income was below the £5,000 threshold. Rather, the charity was removed because it was unable to produce sufficient evidence that it was operating, in the sense of furthering its charitable purposes or having a structured approach to generating funds in order to do so in future.

The case supports the Commission's efforts to maintain an accurate and up-to-date Register of Charities for the benefit of the public and charities generally.

Read the FTT's decision [here](#).

### **CA/2015/0009 Crocels Community Media Group**

*(First-tier Tribunal – interesting charitable status points)*

This case was an appeal in the First-tier Tribunal (Charity) (FTT) against the Commission's decision to refuse to constitute the proposed institution as a Charitable Incorporated Organisation (CIO) and register it as a charity. The Commission refused registration on the basis that the proposed objects were not exclusively charitable for the public benefit.

In particular, the Commission had decided that the proposed objects of improving fraternity between nations, advancing the understanding and promoting the cause of peace, and innovating for the abolition and reduction of standing armies were not recognised charitable purposes and the fact that in each case these objects were intended

to be furthered by means which consisted of the descriptions of charitable purposes in the Charities Act 2011 (the 2011 Act) did not thereby make the objects themselves charitable.

As the FTT noted (paragraph 7 of the decision), this was an appeal case under section 319 of the 2011 Act, so the FTT's role was effectively to re-determine the registration application. The FTT was not, therefore, concerned with establishing whether the Commission had acted unreasonably in public law terms in refusing the registration application.

The FTT ultimately agreed with the Commission that the proposed objects were not charitable, and it confirmed the Commission's decision not to constitute the CIO and register it as a charity.

The FTT's decision provides a good example of the analytical approach to registration applications. In summary, the FTT's reasoning for refusing registration was as follows:

- First, the FTT identified the 'particular purpose(s)' of the proposed charity, following the Upper Tribunal's binding decision in *ISC v Charity Commission* [2011] UKUT 421 (TCC) (paragraph 82 of the UT decision). These were the three purposes in the proposed objects clause of the governing document. The FTT was satisfied that the three particular purposes it had identified were the purposes for which the organisation was (or would be) established.
- Secondly, the FTT considered each of the three purposes to determine whether they expressed 'charitable purposes', i.e. purposes falling within section 3(1) of the 2011 Act that are for the public benefit.
- The FTT then turned to the individual objects. The FTT decided that the first object (promotion of fraternity between nations) was not a charitable purpose, following the decision of Mr Justice Rowlatt in *Anglo-Swedish Society v*

*IRC* (1931) 47 TLR 295, which the FTT considered was still good law that was binding on the FTT.

- The FTT agreed with the Commission that the second object (advancing the understanding and promoting the cause of peace) encompassed both charitable and non-charitable purposes, and therefore failed to be exclusively charitable. In particular, it included both a potentially charitable purpose (advancing education on the subject of peace) with a political purpose that was not charitable (seeking to change government policy by promoting a cause).
- The FTT also agreed with the Commission that the third object (innovating for the abolition or reduction of standing armies) was a clear political purpose within the meaning given by Mr Justice Slade in *McGovern v AG* [1982] Ch 321. As a result it does not express a charitable purpose as it necessarily involves seeking to change government policy.
- The FTT also noted that the organisation's proposed governing document included an express power 'to persuade politicians and other decision-makers to adopt the charities (*sic*) values and policies', which would inevitably raise concerns even if the objects were exclusively charitable.

Based on this analysis, the FTT agreed that the organisation would not be a charity if constituted as a CIO, and upheld the Commission's refusal to register it.

Read the FTT's decision [here](#).

### **Trustees of the Celestial Church of Christ v Lawson [2017] EWHC 97 (Ch)**

*(High Court – charity proceedings case – trustee v employee – interpretation of governing document – application of public law rules of natural justice in charities)*

This High Court judgment concerns the trustees' removal of the spiritual leader of a religious unincorporated charity. The judgment considers:

- whether or not the spiritual leader was a trustee or an employee of the charity
- the weight to be given to collateral documents when interpreting the governing documents that charity trustees are required to register with the Commission
- the extent to which the public law rules of natural justice apply to charities

The proceedings were charity proceedings that the Commission had authorised under section 115 of the Charities Act 2011.

Read the High Court's judgment [here](#).

### **CA/2013/0006; CA/2013/0007 and CA/2013/0008 Sparrow, Carne and Websper (Bath Recreation Ground)**

This FTT decision concluded a long-running dispute about the Bath Recreation Ground.

In 2002, the High Court had determined that the Recreation Ground was held on a charitable trust by the then trustee (the local authority) to maintain the Recreation Ground as a 'recreational facility available for the benefit of the public at large'. Prior to this, in 1974 and 1995, two separate actions had been undertaken by the then trustee: the construction of an indoor sports and leisure centre and car park; and the grant of a lease to Bath Football Club (later Bath Rugby Limited). However, neither action was permissible pursuant to the decision of the High Court in 2002.

As a result, the Commission intervened and, in late 2012, published a Scheme in draft to amend the governance, powers and purposes of the charity to regularise the two actions and permit the trustees to manage the governance of the Recreation Ground on charitable trusts in future. Following

consultation, a final Scheme was made in June 2013 under the Commission's powers under section 69 of the Charities Act 2011 (the 2011 Act).

The Commission's 2013 scheme was appealed to the First-tier Tribunal (Charity) (FTT) in July 2013, by appellants who were beneficiaries of the charity by reason of their being local residents living close to the Recreation Ground. In a decision of March 2014, the FTT allowed the appeals in part and made an Order amending the 2013 Scheme. The significant amendments were that the Recreation Ground needed to be retained 'in specie' as an open space and the 1995 lease had given rise to a *cy-près* occasion (requiring a change to the charity's objects).

In May 2014, the trustees of the Recreation Ground appealed the FTT's decision to the Upper Tribunal. The Upper Tribunal allowed the appeal, making various findings on the nature of the charitable trusts and agreeing that the provisions in the Scheme relating to the 1995 lease were 'administrative' rather than '*cy-près*', meaning that they could be changed by the trustees without the Commission's prior consent. The Upper Tribunal remitted the case to the FTT to be re-heard in line with the Upper Tribunal's findings.

In the subsequent FTT proceedings, the trustees put forward draft amendments to the Scheme in order to comply with the Upper Tribunal's ruling. After some adjustments, the Commission agreed to the draft amendments. The appellants continued to object.

The FTT held a hearing and issued its decision in December 2016. The decision largely accepts the trustees' proposed amendments and encloses a revised Scheme made by the FTT. The decision is of interest as an example of the role of the FTT when considering a scheme, and in particular when considering how to make a scheme in

compliance with an overarching Upper Tribunal ruling. In essence, the FTT adopted the approach that it had power to do anything the Commission could have done but no more. It determined that the proper approach was to consider whether any amendments to the draft Scheme were required but to take a narrow construction in that approach, always being mindful of (a) the limitations imposed by the decision of the Upper Tribunal and (b) the fact that any matters in the original FTT decision that had not been appealed were now settled and could not be re-opened.

The FTT decision brings to an end a lengthy set of legal proceedings and should now provide a degree of certainty to assist the charity in future.

Read the FTT's decision [here](#).

## Our decisions on charitable status

### The Temple of the Jedi Order

The Commission considered an application by the Temple of the Jedi Order for the constitution of a Charitable Incorporated Organisation (CIO) and registration as a charity. The decision made under s.208 of the Charities Act 2011 (the 2011 Act) refused to constitute and register the proposed CIO on the basis that the organisation would not be a charity at the time it would be registered, as it would not be established for exclusively charitable purposes. The Commission was not satisfied that Jediism is a religion in charity law, or that the organisation was established to promote moral or ethical improvement for the benefit of the public.

The Commission had to consider the definition of religion in charity law, including taking into account the extent to which the Supreme Court's decision on the meaning of 'religious worship' for registered places of worship in *R (on the application of Hodkin and another) v Registrar General of Births, Deaths and Marriages* [2013] UKSC 77 might be relevant to the scope of charity law.

The purposes of the proposed CIO included *"To advance the religion of Jediism, for the public benefit worldwide, in accordance with the Jedi Doctrine"*.

The advancement of religion is a description of purpose in section 3(1) of the 2011 Act and religion is partially defined in section 3(2) to include *"(i) a religion which involves belief in more than one god, and (ii) a religion which does not involve belief in a god"*.

From the statute and case law, the Commission draws the principles that a religion in charity law is characterised by a belief in one or more gods or spiritual or non-secular principles or things and a relationship between the adherents of the religion and the gods, principles or things which is expressed by worship, reverence and adoration, veneration, intercession or by some other religious rite or service; is capable of providing moral and ethical value or edification to the public; and has a certain level of cogency, seriousness, cohesion and importance.

Having undertaken a detailed assessment, the Commission concluded that these characteristics were not met in this case. There was insufficient evidence that Jediism and the Jedi Doctrine as promoted by the organisation was a sufficiently structured, organised or integrated system of belief to constitute a religion. The Commission considered that Jediism comprised a loose framework of ideas with some common ground which individuals might interpret as they see fit. In particular, it was not obligatory to interpret and follow the Jedi Doctrine as a religion.

The Commission then considered whether these purposes might be within another description of charitable purpose, the promotion of moral or ethical improvement for the benefit of the public, falling under the description of purposes in section 3(1)(m).

The case law to support as charitable the promotion of moral or ethical improvement of the community is sparse. There is little judicial reasoning within the cases for the recognition of this purpose. The relevant cases are *Re Scowcroft* [1898] 2 Ch 638; *Re Hood* [1931] 1 Ch 240; *Re Price* [1943] 1 Ch 422; and *Barralet and others v AG (South Place Ethical Society)* [1980] 3 All ER 918.

From the case law, the Commission considers that, in order to be established with purposes falling within this description, an organisation must evidence that:

- it has clear and certain objects which incorporate a coherent definition identifying the beliefs, principles and practices
- the beliefs, principles and practices are accessible to the public and capable of being understood and accepted and applied or rejected by individuals according to their individual choice or judgement from time to time
- moral improvement is central to the beliefs and practices
- they directly promote moral improvement within society generally
- there is positive beneficial impact on the wider society not simply the followers
- it is not an inward focussed organisation benefitting members only

The Commission concluded that there was insufficient evidence that the purpose of the organisation would promote moral or ethical improvement for the benefit of the public. The lack of a structured system of belief impacted upon the ability of the organisation to show beneficial impact.

Read the Commission's full decision [here](#).

## The Theosophical Society in England

The Commission considered an application by The Theosophical Society in England (the Society) for registration as a charity.

The Commission decided that the Society meets the requirements of a charity in law, being established for the promotion of moral or ethical improvement and the advancement of education for the benefit of the public.

The Society is a company and corporate successor to an unincorporated organisation. The objects are “...for the public benefit to promote moral and spiritual welfare, and the advancement of education, through the promotion and study of Theosophy”.

The objects are a modern restatement of the objects of the unincorporated organisation dating back to 1896:

- i. To form a nucleus of the Universal Brotherhood of Humanity without distinction of race, creed, sex, caste or colour.
- ii. To encourage the study of comparative Religion, Philosophy and Science.
- iii. To investigate unexplained laws of Nature and the powers latent in man.

The courts have previously decided that the predecessor organisation was not a charity, in part because the advancement of theosophy was not charitable.

In *Re Macaulay's Estate* [1943] Ch 435 the House of Lords held that the objects stated could not be regarded as charitable. *Berry v St Marylebone Corporation* [1958] Ch 406 is a ratings case where the question was whether the purposes of an organisation which occupied certain property were “concerned with the advancement of religion, education or social welfare” (s.8(1)(a) Rating and Valuation (Miscellaneous Provisions) Act 1955).

The Court of Appeal held that the purpose was not for the advancement of religion, education or social welfare, but it was at best a philosophical or metaphysical conception.

In considering this application, the Commission considered theosophy, not as a religion but as advancing moral or ethical improvement, and to what extent it was bound by the earlier decisions of the courts in its approach to this application.

The Commission concluded that the decisions in *Re Macaulay's Estate and Berry v St Marylebone Corporation* are of value in considering whether the Society is a charity but could be distinguished from this application on the facts and the law for the following reasons:

- a. the objects considered by the courts to be non-charitable have been replaced with a more contemporary statement of purposes with the requirements of charity law in mind and therefore are framed in terms of recognised charitable purposes
- b. the legal authorities did not debate whether the association was established to promote the moral or ethical improvement of the community as a charitable purpose.

There have been no significant changes in the law since 1957 which would call into question the decision of the Court of Appeal in *Berry v St Marylebone Corporation*. However, the subsequent approach taken by the court in the charity case of *Barralet and others v AG [1980] 3 All ER 918 (South Place Ethical Society)* provides some basis to examine and determine its application to the purposes of the Society in modern times.

In *Barralet* Dillon J held that the relevant society's objects were not for the advancement of religion but by analogy were charitable for the mental and moral improvement of man relying upon the decided cases of *Re Scowcroft [1898] 2 Ch*

638; *Re Hood [1931] 1 Ch 240* and *Re Price [1943] 1 Ch 422*.

The Commission concluded that there was evidence to show that:

- a. the characteristics of the purpose to promote moral or ethical improvement for the benefit of the public were met
- b. the advancement of education was one of the purposes of the Society.

Accordingly, the Commission registered the Society as a charity.

### **The Countryside Alliance**

The Countryside Alliance (the Alliance) applied for registration as a charity.

In 2006 the Alliance applied to register a charity to carry out those aspects of its work which it considered furthered charitable purposes. The Countryside Alliance Foundation (the Foundation), a separate legal entity from the Alliance, was registered in 2007. At that time the Alliance was not constituted as a charity and did not have exclusively charitable purposes.

The Alliance applied to be registered with a detailed statement of purposes which overlapped to some extent with those of the Foundation. Some of these purposes were charitable, but the Commission can only register an organisation as a charity if it is established for exclusively charitable purposes.

The stated purposes of the Alliance included:

- to promote agriculture, game and food production for the public benefit
- to preserve, protect and promote the heritage and practice of activities relating to wildlife, the countryside and wildlife management including hunting, shooting and fishing, together with the management of the natural environment.

The Commission considered whether the first of these purposes was within or analogous to the promotion of agriculture for the public benefit, which is a description of purpose within s.3(1)(m) of the Charities Act 2011, having been recognised by the courts, including by the Court of Appeal in *IRC v Yorkshire Agricultural Society [1928] 1 KB 611*. The Commission has previously accepted that the promotion of food production for the public benefit is charitable as conjunctive with that purpose.

The Commission considered the means by which the Alliance was promoting game or game production in order to consider whether the furtherance of this purpose would produce a charitable result and would be for public benefit.

It appeared to the Commission that the primary result of the furtherance of this purpose was private benefit accruing to those commercially involved in the production of game for eating. The private benefit flowing from this activity therefore appeared to be more than incidental to the public benefit flowing from it, and accordingly the Commission decided that this purpose was not exclusively charitable.

In relation to the second of the purposes stated above, the Commission considered that it was too wide and uncertain to be exclusively charitable. The Alliance argued that this was a charitable purpose falling within the descriptions of purpose of the advancement of heritage and the advancement of environmental protection or improvement. It was not clear to the Commission that this purpose fell within either of these descriptions, and the Commission did not identify any other relevant descriptions of purposes to consider.

The Commission recognised that some of the Alliance's purposes were charitable, and that the Alliance did important work protecting and promoting rural life and representing the interests of people living and working in the countryside from all backgrounds and geographical locations. But not every purpose that is beneficial to society is a charitable purpose for the public benefit.

Accordingly, as the purposes of the Alliance were not clearly exclusively charitable, the Commission refused to register the Alliance as a charity. The Commission's full decision, covering all seven elements of the Alliance's stated purposes, was published on the Commission's website.

Read the Commission's full decision [here](#).

## 7

## Financial performance

The resource accounts report a revenue underspend of £0.12 million (2015-16: £0.42 million) and a capital expenditure underspend of £0.06 million (2015-16: £0.46 million). These comparatively small underspends reflect the tight margins that the Commission operates under in order to maximise its resource utilisation. Directors and budget holders have worked closely to keep operating costs under control, keeping a tight rein over both our core funding and the additional investment funding received from Treasury.

The Commission's core funding was supplemented by investment funding of £3.3 million (2015-16: £3.3 million) as a part of an £8 million investment package over a three-year period to help fund the Commission's Transform Programme. Next year will be the final year of the investment funding. In 2016-17, the Commission received additional ring-fenced funding of £0.3 million, to meet rising depreciation costs which were a direct result of capital investment in the Transform Programme.

### Our funding

Our baseline revenue (non-ring fenced) and capital funding for 2016-17 amounted to £20.3 million (2015-16: £20.3 million), and £1 million (2015-16: £1 million), respectively. Both funding streams were supplemented by additional investment funding as mentioned in the section above, and both were reduced by application of HM Treasury's budget exchange mechanism to carry forward limited funds into 2017-18. The following table sets out our funding limits over concurrent spending periods (2011-12 through to 2019-20).

|  | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|  | (£'000) | (£'000) | (£'000) | (£'000) | (£'000) | (£'000) | (£'000) | (£'000) | (£'000) |
| <b>Revenue DEL</b>                                 | 27,580  | 26,020  | 22,289  | 21,443  | 23,201  | 22,890  | 22,310  | 21,950  | 22,050  |
| of which non ring-fenced                           | 26,100  | 25,250  | 21,489  | 20,593  | 22,351  | 21,740  | 20,810  | 20,350  | 20,350  |
| of which ring-fenced depreciation                  | 1,480   | 770     | 800     | 850     | 850     | 1,150   | 1,500   | 1,600   | 1,700   |
| <b>Capital DEL</b>                                 | 493     | 361     | 725     | 962     | 2,200   | 2,880   | 1,120   | 1,200   | 1,200   |
| Decrease/(increase) in non ring-fenced Revenue DEL | 6%      | 3%      | 15%     | 4%      | (8%)    | 3%      | 4%      | 2%      | 0%      |

Notes: Revenue DEL includes one-off funding of £1.4 million (2015-16: £2 million) for the Commission's Transform Programme.

Capital DEL includes one-off funding of £1.9 million (2015-16: £1.3 million) for the Commission's Transform Programme..

Ring fenced revenue DEL refers to that element of voted funding for depreciation and amortisation.



### Financial performance against statutory limits

The level of expenditure incurred by government departments, including the Commission, is subject to statutory funding limits approved by Parliament. It is a fundamental form of accountability that expenditure within a financial year must not exceed these limits. There are three key financial limits which the Commission must achieve and all three of them were met. Our performance against these limits is set out in the table below:

|                                   | Revenue DEL<br>(£'000) | Capital DEL<br>(£'000) | Net Cash Requirement<br>(£'000) |
|-----------------------------------|------------------------|------------------------|---------------------------------|
| Main estimate                     | 23,050                 | 3,000                  | 25,130                          |
| Supplementary estimate            | (160)                  | (120)                  | (120)                           |
| <b>Final limit</b>                | <b>22,890</b>          | <b>2,880</b>           | <b>25,010</b>                   |
| Expenditure and/or cash used      | 22,766                 | 2,818                  | 24,878                          |
| <b>Surplus for year</b>           | <b>124</b>             | <b>62</b>              | <b>132</b>                      |
| Performance within funding limit? | ✓                      | ✓                      | ✓                               |

The net cash requirement reflects the in-year expenditure, adjusting for non-cash items and movements in trade payables and receivables.

## Sustainability report

We are committed to sustainable development and reducing the impact of our activities on the environment. This will be achieved through implementation of our Sustainability Action Plan, a copy of which can be found on our website. In addition, all government departments and executive agencies have mandated targets for reducing greenhouse gas emissions, waste and water consumption. These are known as SDiG targets (Sustainable Development in Government). Our performance against each of the four SDiG targets is set out below.

Where our records are incomplete, we have made a reasonable estimate based on the information available. This is identified by an '(e)' in the performance table.

### Greenhouse gas emissions

There are three different classifications of greenhouse gas emissions, known as scopes:

Scope 1: Direct emissions occurring from sources owned or controlled by the organisation, for example, emissions from combustible boilers and from organisation-owned fleet vehicles.

Scope 2: Indirect emissions resulting from electricity consumed which is supplied by another party.

Scope 3: Other indirect emissions. All other emissions which occur as a consequence of our activity but which is not owned or controlled by the Commission. For example, emissions as a result of staff travel on public transport and emissions resulting from work done on the Commission's behalf by its suppliers.

Scope 1 and 2 no longer apply to the Commission as we did not manage buildings during the financial year – in each of our four sites we are minor occupiers of a larger government building. Direct emissions are accounted for by the relevant major occupier, who in each case has building-wide responsibility for sustainability reporting. Scope 3 does apply to the Commission.

### Detailed analysis of performance on Scope 3

|   |   | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---------|---------|---------|---------|---------|---------|
| Scope 3 Business travel gross emissions |   | 60.85   | 59.64   | 57.62   | 78.26   | 72.84   | 120.27  |
| Financial indicators (£k)               | Expenditure on Energy CRC Licence Expenditure | 135     | 141     | 147     | 147     | 112     | 41      |
|   | Expenditure on official business travel       | 213     | 237     | 289     | 349     | 482     | 604     |

Scope 3 covers all types of travel undertaken by Commission staff and the use of couriers. The increase is due to our Transform Programme, which has required extensive travel between our sites by both staff and project contractors.

### Energy, Waste and Water Consumption

The minimum requirements for reporting waste disposal, recycling levels and water usage are set out in the government's Sustainability Reporting Guidance. As for energy consumption, these depend on availability of data and since the Commission is, from 2016/17, a minor occupier at all sites reliable data is no longer available to enable separate reporting of performance with the exception of paper consumption. We have reduced the amount of paper we use by 12.5% from 2014/15 to 2016/17 (down from 1960 reams to 1715 reams).

**Paula Sussex**  
Chief Executive  
and Accounting Officer

30 June 2017

# 8

# Accountability report

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## Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the Charity Commission to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Charity Commission and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

So far as the Accounting Officer is aware, there is no relevant audit information of which the NAO are unaware. The Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the NAO are aware of that information. "Relevant audit information" means information needed by the NAO to prepare their audit report.

She takes personal responsibility for the annual report and accounts and the judgements required for determining that as a whole it is fair, balanced and understandable; which she can confirm.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis
- confirm that the annual report and accounts as a whole is fair, balanced and understandable.

HM Treasury has appointed the Chief Executive as Accounting Officer of the Charity Commission. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and safeguarding the Charity Commission's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury.

## Annual governance statement 2016-17

### Governance statement

My statement sets out the Commission's governance, risk management and internal control arrangements. It applies to the 2016-17 financial year and up to the date of approval of the annual report and accounts. My term of appointment reaches its natural conclusion in July 2017 making this my final statement as accounting officer.

### Corporate governance code

The corporate governance code<sup>1</sup> (the Code) remains in force across government. Although it is primarily for ministerial departments, non-ministerial departments such as ours adopt and adhere to the Code where it is constructive and practical to do so, and not incompatible with our statutory duties.

We undertook our annual assessment of our governance arrangements against those requirements within the Code applicable to us and have concluded that we remain compliant with both its spirit and principles.

### Conflicts of interest

We actively manage risks associated with potential conflicts arising from external interests for both our board and senior executives. We require board members to declare all relevant personal or business interest and record these in our register of interests.<sup>2</sup> We ask that any potential conflicts are declared and recorded at the outset of each board or committee meeting and that the individual(s) take no further part in decision making, or withdraw as required.

The following board members have declared positions that conflicts of interest have the potential to arise: Mike Ashley, chair of our Audit and Risk Committee, continues as the chair of the Government Internal Audit Agency, our internal audit supplier and so has an enduring conflict of interest, although this was not seen as so significant as to require him to step back from his role on any occasion this year. Catherine Quinn is a trustee of the Royal British Legion but no occasion arose where it was necessary for her to step back from her role or not be involved in a particular discussion. Tony Leifer, chair of our Public Interest Litigation and High Risk Cases committee, is a member of the Board of Deputies of British Jews and stood back as chair of that committee where the potential for conflict of interest arose when considering matters before that committee.

No company directorships or other interests were held by directors which conflicted with their management duties this year.

### Governance structures

The Commission's long-term direction and strategy is set by our board. Along with my senior executives I am responsible for the delivery of our strategic priorities and for day-to-day operational delivery.

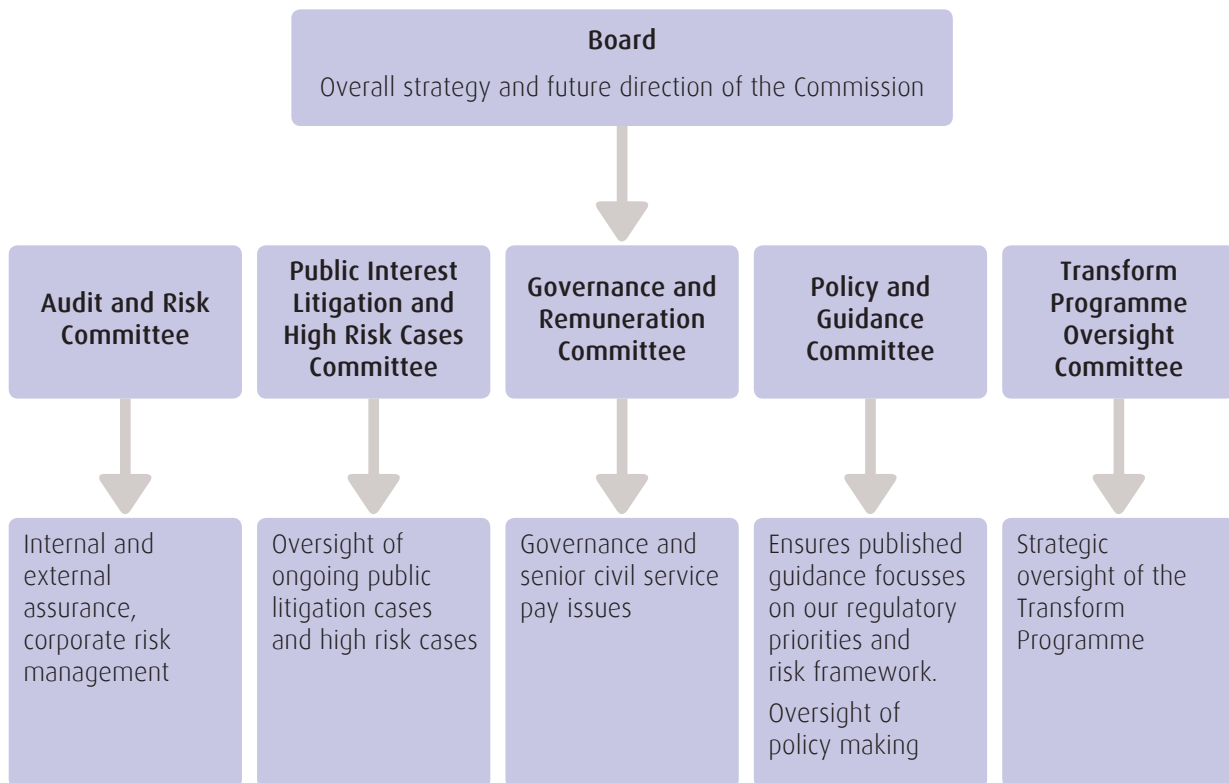
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1 Corporate governance in central government departments: code of good practice – 2011.

2 [Board Register of Interests](#).

## Board

All new board members are appointed by the Office for Civil Society through open and competitive selection and serve for a term of three years, renewable to a maximum tenure of ten years. They use their range of backgrounds, skills and expertise to provide strategic direction and oversight.



William Shawcross continued as our chairman throughout the year. Elsewhere we saw a number of changes on the board in response to the conclusion of some terms of appointment and other naturally occurring vacancies. To ensure continuity, the Office for Civil Society extended the appointment of four of our board members in May 2016 for varying terms – Eryl Besse, Orlando Fraser, Gwythian Prins and Tony Leifer. Eryl Besse was also appointed deputy chair of the Commission in May 2016. Claire Dove stepped down in June 2016 and Gwythian Prins in January 2017.

Our board recruitment campaign over the summer of 2016 led to the successful appointment of three new members, who bring experience in digital services, in-depth understanding of the charity sector and experience working in the field of security and risk, to match the organisational priorities identified in our board effectiveness review reported last year.

A number of independent specialists supported the board within the year:

Alan Downey MA, MBA – continued as the independent co-optee to the Audit and Risk Committee, a role he has performed since May 2014.

David Gillies BA (Hons), FCIPD, HR Director Ofgem – was appointed as the independent co-optee of the Governance and Remuneration Committee in June 2016.

## ACCOUNTABILITY REPORT

Jan Gower, former IBM Executive and PWC Partner – continued as an independent Transform Programme review and assurance expert, a role she has performed since October 2015.

John Wood, former Legal board member (until February 2014) – continued as an independent member of the Public Interest Litigation and High Risk Cases Committee and of the Transform Programme Oversight Committee.

Board members, their attendance at board meetings and their membership and attendance of committee meetings is shown below:

|  | Board meetings |              | Audit and Risk Committee |              | Governance and Remuneration Committee |              | Public Interest Litigation and High Risk Cases Committee |              | Transform Programme Oversight Committee |              | Policy and Guidance Committee |              |
|--|----------------|--------------|--------------------------|--------------|---------------------------------------|--------------|--|--------------|---|--------------|-------------------------------|--------------|
|  | Attendance     | Attendance % | Attendance               | Attendance % | Attendance                            | Attendance % | Attendance   | Attendance % | Attendance                              | Attendance % | Attendance                    | Attendance % |
| <b>Board members</b>                               |                |              |                          |              |                                       |              |  |              |   |              |                               |              |
| William Shawcross                                  | 7/7            | 100%         |                          |              | 1/1                                   | 100%         |  |              | 4/7                                     | 57%          |                               |              |
| Mike Ashley  | 6/7            | 86%          | 4/4                      | 100%         |                                       |              |  |              | 7/7                                     | 100%         |                               |              |
| Laurie Benson <sup>3</sup>                         | 4/4            | 100%         | 1/1                      | 100%         |                                       |              |  |              | 2/2                                     | 100%         | 1/1                           | 100%         |
| Eryl Besse   | 7/7            | 100%         |                          |              | 1/1                                   | 100%         | 4/6  | 66%          | 7/7                                     | 100%         | 3/3                           | 100%         |
| Claire Dove <sup>4</sup>                           | 1/1            | 100%         |                          |              |                                       |              |  |              |   |              | 1/1                           | 100%         |
| Orlando Fraser                                     | 4/7            | 57%          |                          |              | 1/1                                   | 100%         | 3/6  | 50%          |   |              | 2/3                           | 66%          |
| Tony Leifer  | 7/7            | 100%         |                          |              |                                       |              | 6/6  | 100%         |   |              | 3/3                           | 100%         |
| Paul Martin <sup>5</sup>                           | 3/4            | 75%          |                          |              | 0/0                                   | -            | 3/3  | 100%         |   |              |                               |              |
| Catherine Quinn <sup>6</sup>                       | 4/4            | 100%         | 1/1                      | 100%         | 0/0                                   | -            |  |              |   |              | 1/1                           | 100%         |
| Gwythian Prins <sup>7</sup>                        | 4/5            | 80%          | 3/3                      | 100%         |                                       |              |  |              | 4/6                                     | 67%          |                               |              |
| <b>Independent committee members and co-optees</b> |                |              |                          |              |                                       |              |  |              |   |              |                               |              |
| Alan Downey  |                |              | 4/4                      | 100%         |                                       |              |  |              |   |              |                               |              |
| David Gillies                                      |                |              |                          |              | 1/1                                   | 100%         |  |              |   |              |                               |              |
| John Wood  |                |              |                          |              |                                       |              | 6/6  | 100%         | 7/7                                     | 100%         |                               |              |

<sup>3</sup> Laurie Benson joined the board in November 2016

<sup>4</sup> Claire Dove left the board in June 2016

<sup>5</sup> Paul Martin joined the board in November 2016

<sup>6</sup> Catherine Quinn joined the board in November 2016

<sup>7</sup> Gwythian Prins left the board in January 2017



There were seven board meetings during the year. Specific areas of focus included:

- progressing proposals for a new sector funding model to create a more sustainable financial platform for our future regulatory work
- furthering our enablement strategy, including:
  - updating our Statement of Regulatory Approach
  - commissioning partnership research into governance skills within the charitable sector
- oversight of internal restructuring within the Policy and Communications and Operations Directorates
- oversight of legal matters, including:
  - the proposed migration of specific responsibilities from the Attorney General’s office to the Commission
  - charitable and authorised investment funds.

At its strategic awayday in April 2017, the board reviewed progress against our 2015-18 Strategic Plan. Members acknowledged the continuing transformation of the organisation, and our progress in strengthening compliance within the charity sector through data-driven, risk-led regulation. Looking ahead to the last year of the Strategic Plan, key themes identified by the board, in no particular order, are:

- progressing the enablement strategy and associated sustainable funding;
- building on the Commission’s improved compliance functions;
- effective leadership with continuing investment in staff skills to build a positive and engaging working culture.

### Quality of information to the board

The board and its committees reviewed a range of management information about financial and operational performance to support its discussions and leadership, principally in the form of our monthly Corporate Performance Dashboard. The ‘Dashboard’ was reviewed and extended this year to improve its impact. It comprises internal and external key performance and management indicators spanning finances, human resources, IT delivery and operational outputs and outcomes. The most significant risks to the Commission are reported in the Dashboard and reviewed each month. Strengthened internal processes improved the quality and integrity of information within the Dashboard this year. Internal audit’s review of the Dashboard concluded that it aligned effectively with our strategic and business priorities and provided accurate information.

Taken together, these measures have provided the board and my executive team with assurance that we may rely on the accuracy of the information reported.

### Governance framework

Our governance framework describes how our governance mechanisms operate and interact. It remained unchanged during the year. To read this document in full follow the [link to our governance framework](#).

## Board effectiveness

The board evaluated its performance at its strategic awayday, looking at a variety of issues including: its composition, skills and knowledge; the dynamics within the board and between the board and the executive; its approach to managing conflicts of interest; and its approach to risk and committee reporting.

Members considered that the board and the committees were effective in fulfilling their statutory duties. The board recognised that with three new members having joined in November 2016 and with changes over the following 12 months to include a new Chief Executive, a change of Chairman and of a legal board member, the board would need to focus on the continued development of its knowledge, skills and experience to maximise its strategic impact during 2017-2018.

In accordance with best practice governance, a board effectiveness review is planned for 2018 and we intend to repeat this on a three-year cycle.

## Committees of the board

The board continues to be supported by a number of committees, each of which reports to the full board at its meetings.

### Audit and Risk Committee (ARC)

The ARC supports me as Accounting Officer, and the board, by reviewing the effectiveness of our audit, risk management and assurance arrangements, specifically through:

- evaluating the comprehensiveness and reliability of assurances which underpin effective stewardship of the public resources under my control;
- monitoring the effectiveness of our approach to corporate risk management;
- assessing the integrity and accuracy of our financial statements and annual governance statement; and
- overseeing internal and external audit arrangements.

ARC met on four occasions during the year where, in addition to core activity, specific areas of focus were:

- a continuing programme of deep dives into risks within individual Directorates or functions
- scrutiny of the Dashboard, with a particular focus on learning and development, information governance and security issues, supplemented with regular reports on IS performance and from our Security Steering Group
- consideration of our employee whistleblowing procedure which promotes staff 'freedom to speak up'. ARC noted that our policy complies with good practice and the standards set by CSEP (Civil Service Employee Policy)
- oversight of any occurrences of bribery, fraud or theft, health and safety incidents or near misses – no material incidents were reported during the year.

We dealt with one instance of internal whistleblowing during the period of this report. An external review was commissioned by the Commission's whistleblowing champion Mike Ashley and myself, which concluded that the allegations were not substantiated. The report's findings and conclusions were considered by a committee comprising myself and board members Mike Ashley and Paul Martin. The decision has subsequently been appealed and referred to the Civil Service Commission.

Two new members of the board, Laurie Benson and Catherine Quinn, filled vacancies on the ARC this year. Membership of the committee was considered in the period with the conclusion that the committee's skills equipped it well to perform its role. The ARC also reviewed its Terms of Reference, concluding that they remain fit for purpose but should be reviewed again later in 2017 when we plan to broaden ARC's role to include oversight of progress made in modernising IT and in future programmes of corporate change, integrating with the new corporate strategy and management groups described later in my statement.

### **Public Interest Litigation and High Risk Cases Committee (PILHRCC)**

This committee continued its work with the executive, monitoring the most complex and high risk of our cases and those where litigation in the public interest is being considered or underway. PILHRCC meetings take place every two months, prior to board meetings to enable timely upward reporting.

As well as its monitoring work reviewing reports on specific cases under structured high risk criteria, PILHRCC also considers generic issues emerging from high-risk case work and formulates general policy strategies which may arise. In this respect the committee has formed a close relationship with the Policy and Guidance Committee. PILHRCC also continued its oversight of strategies to balance resourcing required to close older cases with resources required to tackle new or high-risk cases.

A new board member, Paul Martin, joined the committee this year.

### **Governance and Remuneration Committee (G&RC)**

The committee met once during the year when it evaluated the performance of our most senior officials to determine fair remuneration levels, in compliance with government policy. Pay policy for other employees was discussed along with our total reward strategy which delivers wider benefits and recognises good practice within our workforce. Board and executive succession issues were also given prominence.

A new independent co-optee, David Gillies, joined the committee this year.

### **Policy and Guidance Committee (P&GC)**

This committee continued its work of considering policy and guidance priorities for the Commission in response to themes emerging from our casework, including those arising from high risk casework monitored by the PILHRCC, sector trends and external factors or legislation which influence our regulatory focus. Meetings take place three times a year and an oral report is made by the chair of the committee to the board.

The committee has considered the preparation of new and revised guidance on issues such as trustee duties in relation to fundraising and litigation, work relating to the implementation of the Charities (Protection and Social Investment) Act 2016 and the research we are supporting which is examining how trustee awareness can be raised.

Laurie Benson and Catherine Quinn joined the committee this year.

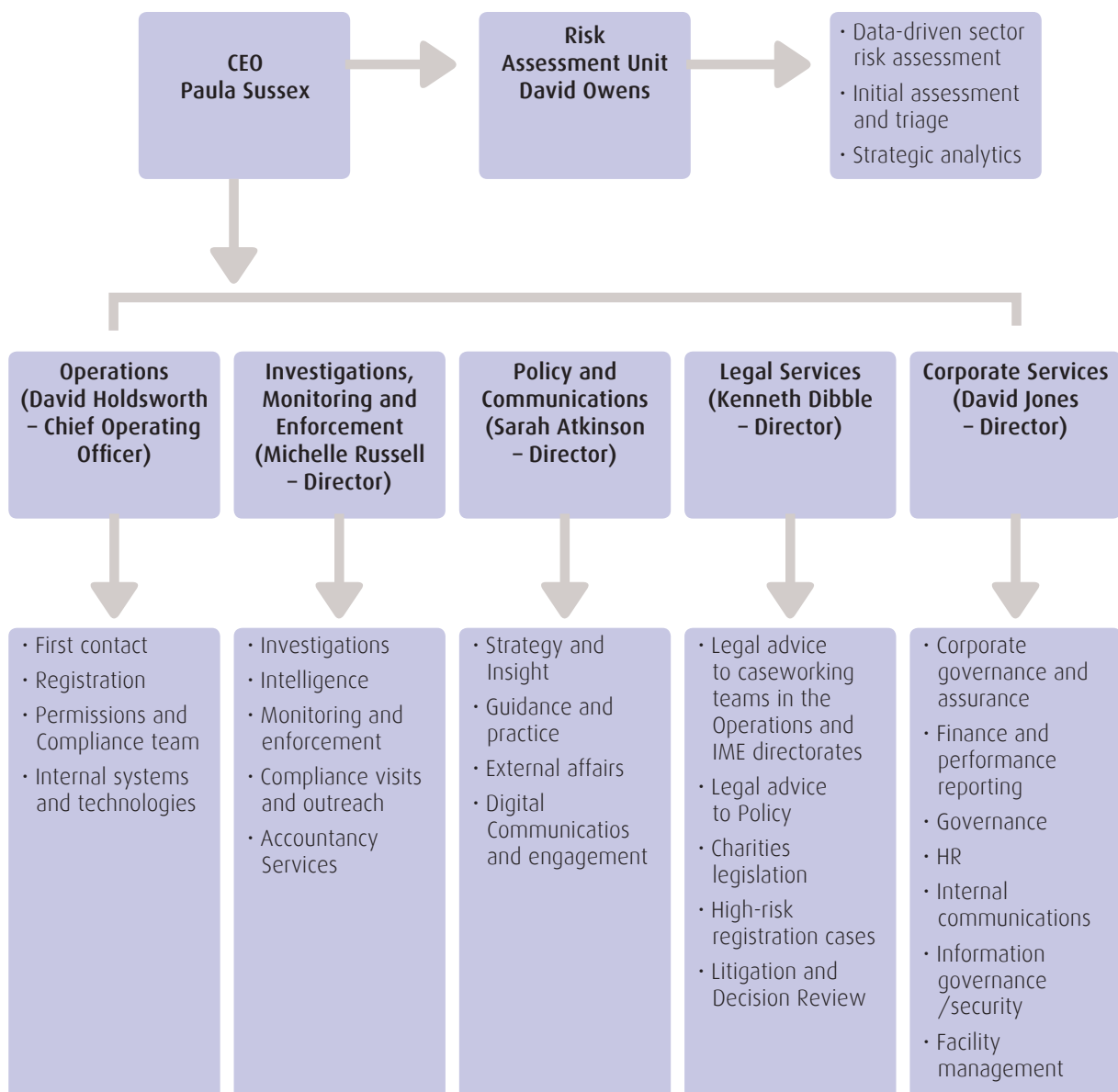
### **Transform Programme Oversight Committee (TPOC)**

Several members of the board are represented on this important committee, which benefits also from independent membership and assurance. Meeting monthly, TPOC continued its scrutiny of delivery and control over our £8 million invest-to-save Transform Programme. This change programme, reported in previous statements, continues to transform our regulatory capability including through more efficient

processes, IT infrastructure development and new digital solutions. TPOC interlinks with our Transform Programme Delivery Board, which reports progress to senior executives following its monthly meetings. Both of these key governance structures are chaired by my Chief Operating Officer. The current period leading up to the natural conclusion of the Transform Programme in 2017 remains extremely busy with many new products and services being assimilated into operational performance whilst we maintained business as usual. Oversight of ongoing business transformation at the conclusion of the formal Transform Programme remains essential. This activity will migrate to the new governance structures I established this year, described below.

### Executive leadership

Operational leadership across the Commission is the responsibility of my team of executive directors, the Directors’ Group (DG). Collectively, we are responsible for day-to-day decision making, and the delivery of policy and work programmes to achieve the Commission’s statutory duties and strategic aims. DG is the principal interface with the Commission’s board.

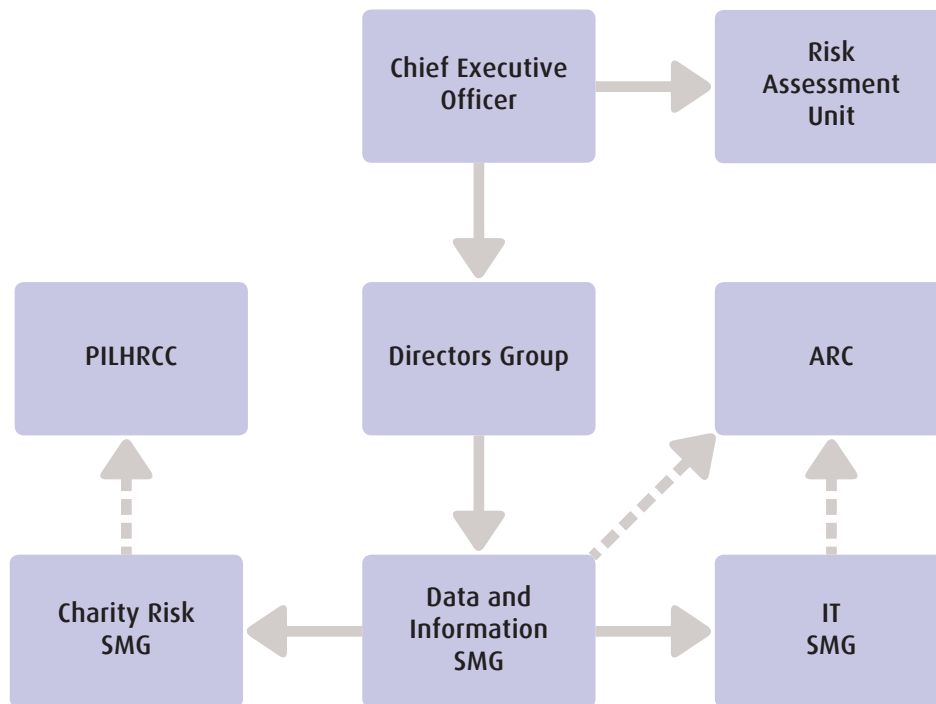


Membership of DG remained stable throughout the year. We met formally each month when our emphasis was on:

- delivery of our Transform Programme
- tracking progress against both our Business Plan and our Strategic Plan
- establishing a new Risk Assessment Unit which is enabling more proactive risk-based regulation through better data analytics and technology
- creating stronger enablement strategies for the charity sector, including work with partners to research training that would support more effective governance of charities by trustees
- measures to improve the governance and integrity of information held by the Commission
- developing proposals for our potential new sector funding model to create a more sustainable financial platform for our future regulatory work
- internal restructuring of the Operations and Policy and Communication directorates to better target resources to demand
- measures to support staff engagement, with customised learning and development opportunities
- value for money initiatives, including rationalisation of our estate and a voluntary exit scheme for staff
- monitoring important work rebuilding capacity at our Taunton office following temporary closure caused by a fire elsewhere on the premises
- developing policies fundamental to building our regulatory effectiveness.

### **Corporate strategy and management groups**

The DG is supported by three new corporate governance groups I established in quarter four to replace the formal governance mechanisms which have controlled the Transform Programme and to simplify and improve integration across our internal governance arrangements. These new strategy and management groups (SMGs) are responsible for Data and Information, Charity Risk, and IT, all of which will be major contributors to future effectiveness. The SMGs report directly to DG, as shown in the chart below. They are ensuring that the long-term benefits of the Transform Programme are sustained and furthered by exercising a coherent corporate approach to each enterprise and establishing controls over investment and change. We will review the effectiveness of each SMG in the coming year alongside a wider review of our governance arrangements.



### Wider Leadership Team

This team comprises a group of managers who play a key role in the achievement of our business priorities. We continued our investment in this group by delivering a bespoke training programme focused on the core leadership values we have identified as essential to building creativity and empowerment at all levels of our organisation, supplemented with individual coaching. We have subsequently rolled this programme out to further tiers of management along with individual coaching.

### Risk Assessment Unit

Following work over recent years developing risk assessment techniques to underpin our regulatory approach, I launched our new Risk Assessment Unit (RAU) this year. Reporting directly to me, the unit is monitoring charity and sector risks, further enabling our strategic objective to deliver more robust, proactive data-driven risk-based regulation. The RAU is using a new framework to advance the quality and consistency of our regulatory interventions through data-driven risk assessments. Analysis of the RAU’s work will inform future business planning.

### Corporate Assurance Framework

We tackle organisational risk through our Corporate Assurance Framework. Our objective is to bring risk to a tolerable level rather than remove it entirely. Risk registers are maintained throughout the business to mitigate the strategic and operational risks inherent to our work.

### Strategic risks

Our strategic risk register identifies the most significant risks to the delivery of our objectives. This is redrawn at the start of each year in response to changes to our risk universe and our priorities. We report these risks within our integrated Dashboard; we review this Dashboard monthly at DG and at each meeting of the board and ARC. This exposure provides an opportunity for challenge to actions we have adopted to bring risks within our tolerance.

## Operational risks

Risks to the achievement of our Business Plan are recorded in directorate risk registers which are reviewed and updated at regular intervals during the year and supplemented by individual project or functional risk registers where necessary. Our established programme of risk 'deep dives' at ARC provides additional challenge to the ratings applied to each risk and the effectiveness of controls.

The following represent the prominent risks we faced this year and we continue to take action to mitigate these risks:

**Inability to deliver essential regulatory activities as a result of inadequate funding:** Delivery of change initiatives, including new software and guidance tools and training, have led to improvements in operational effectiveness. In turn these have enabled us to meet rising workload demands and reduce casework backlogs. Whilst this risk reduced to a reasonable level in 2016-17, continuing rising demand and increasing proactive regulation means it is again increasing. Further efficiencies from introducing digital services, tight control of costs and other initiatives may not fully mitigate the risk. We are engaged in continuous dialogue with HM Treasury to achieve sustainable funding, including proposals for a new funding model, which includes contributions from the charity sector.

**Failure to deliver and sustain efficiencies from our Transform Programme:** Comprehensive assurance mechanisms, with clear accountabilities for delivery, have driven performance, value for money and accountability. An assurance report commissioned from Jan Gower, the independent assurance member of the TPOC committee, has assessed performance against the programme's objectives with actions recommended to mitigate risks to the completion of the programme and realisation of its benefits.

Restructuring of our Operations Directorate and of our IT and digital teams is creating new, more efficient ways of working, supported by the outputs of the Transform Programme.

Delivery into the business of new technologies, tools and approaches is co-ordinated through our Business Change Implementation team. They engage in all change initiatives ensuring that the workforce is kept informed and that the launch of the Transform Programme's products is timed carefully to integrate with the release of others. The team has facilitated the process through the design and delivery of internal communications, training and implementation support. The team is also putting post-implementation reviews in place to test the sustainability of new products to ensure that change benefits are achieved.

**Poor public understanding of our independent regulation damages public trust and confidence in the Commission:** We continued our communications and publications strategy to build a strong public narrative about our work and promote our regulatory achievements. We underpinned this strategy with a programme of engagement with influential charities and umbrella bodies. Our new enablement strategy for charities is promoting our regulatory approach, supplementing existing impartial guidance on 'must do' and 'should do' for the sector with tools to make it easier to engage with us on specific trustee duties. Our biennial survey of public trust and confidence in the Commission allows us to gauge awareness of our role. Findings from our 2017 survey revealed that 88% of the public consider that we perform an essential or important role and that public trust and confidence levels remain constant from our last survey.

**Other notable risks:** The year ahead will see both a new Chief Executive and Chair of the board joining the Commission at a time when the progression and sustainability of change remains pivotal. We also face the challenge of maintaining workforce skills and engagement during a continuing process of organisational change. We will continue our workforce strategy, investing in our staff through learning and development programmes that build core caseworking skills and support cultural change corresponding

with the ongoing transformation of our business. Equally, we will continue shaping leadership behaviours that promote innovation and effective decision-making to achieve results.

### **Information governance**

Information risks remain prominent for us as they do for any public authority where the collection of personal data is fundamental to achieving its purposes. Building on work started in the previous year, we again targeted resources at improving control over information risks and enhancing the way in which the assets we hold support our strategic aims. This activity is helping our preparations for compliance with the new European General Data Protection Regulations, which come into force in 2018.

Significant achievements to report this period include:

- commissioning a new policy for protecting information assets
- reviewing compliance with the Data Protection Act (1998) and preparing for the new European General Data Protection Regulations
- better consideration of privacy impacts during the initiation of new projects or process changes
- launching our new Data and Information Strategy
- preparing all our paper records for transfer to The National Archive in line with the requirements under the Public Records Act (1958), enabling us to now focus our attention on digital records
- continuing our programme upgrading critical elements of our IS infrastructure to maintain security levels;
- improving our system of internal and external penetration testing, including new interactive digital services.



A total of six personal data incidents occurred this year. All were managed through internal actions to swiftly contain and rectify them and prevent reoccurrences.

| Category/Nature of personal data breach   | Incidents reported to ICO | Incidents not reported to ICO |
|---|---------------------------|-------------------------------|
| I Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises          | 0                         | 0                             |
| II Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises | 0                         | 2                             |
| III Insecure disposal of inadequately protected electronic equipment, devices or paper documents                            | 0                         | 0                             |
| IV Unauthorised disclosure  | 0                         | 3                             |
| V Other   | 0                         | 1                             |
| <b>Total</b>  | <b>0</b>                  | <b>6</b>                      |

We corresponded with the ICO regarding one incident where a system issue meant that the names of some charity trustees for whom we had granted a 'dispensation'<sup>8</sup> became accessible through online tools that extract and publish data from our Register of Charities. We took immediate action to remove the data from public view whilst we investigated and rectified the cause of the error. We also acted promptly to strengthen management controls for our process for awarding dispensations. We wrote to the trustees most affected to advise them of the error and apologise to them.

As a result of our investigation, we are revising our guidance on awarding dispensations to ensure consistent decision-making by delegated individuals, coupled with stronger controls. We are also enhancing our procedures for reporting, containing and managing potential information incidents, and this work is ongoing.

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<sup>8</sup> In specific limited circumstances we exercise our discretion to waive the legal requirement for trustees to be publicly listed on the Register of Charities by awarding a 'dispensation'.

## Independent assurance and scrutiny

### Internal audit

Our internal audit service continued to be delivered by the Government Internal Audit Agency (GIAA). With the DG, I formulated our assurance programme with GIAA early in the year which ARC approved at its meeting in April 2016.

Six internal audits were performed, assessing: our Dashboard; information security practice; financial controls; pensions; our work preparing for and implementing new legal powers from the Charities (Protection and Social Investment) Act 2016; and casework flows. GIAA provided further consultancy to a DPA compliance review we carried out internally. GIAA rated our systems of governance, risk management and control as 'substantial' in one of the audits and 'moderate' in each of the other five audits. As these are the top two ratings possible, I have taken assurance that we are controlling risks to an acceptable degree within an environment of significant challenge and change given the resources at our disposal. From these audits we agreed 32 actions to enhance governance and control, none of which were designated as urgent.

Our Head of Internal Audit from GIAA has provided me with an annual report confirming his opinion that overall, as for last year, I may take 'moderate' assurance over our arrangements for governance and risk control. There were no matters arising from the work of internal audit during the period that require separate comment in this governance statement.

### NAO

We have continued to make significant progress against the recommendations made by the NAO in their previous studies into our work. At the time of writing, the NAO are following up recommendations from their study in 2015 as well as looking out how we are addressing new challenges that have arisen since their previous review. Their work is looking at our governance and leadership; our stewardship of public resources, particularly those invested in our Transform Programme; how we are using data and our new legal powers to improve outcomes; and how we are adapting our approach to deal with new challenges facing the sector.

### Infrastructure services

Our external facing services have undergone two independent security and health-checks conducted by approved Cyber Security advisors. The issues identified in these tests have been – or are in the process of being – addressed with the risk remediation plan reviewed regularly and reported to the Senior Information Risk Owner (SIRO).

Our Public Sector Network accreditation has been renewed by Cabinet Office but is subject to the completion of an agreed remediation plan. Progress on the completion of these activities will be reported to the SIRO.

Our hosting provider has undertaken an internal-facing security check using a recognised security test tool (Qualsys). This differs from an external test in that it will identify vulnerabilities that could be exploited by an attacker that would otherwise be mitigated by the external-facing security appliances. The issues identified in this report, none of which were classified as critical or urgent, are the subject of an agreed remediation plan.

### Human resources

A Civil Service Commission compliance audit of our recruitment procedures reported in March 2017 that we complied fully with policy requirements. The audit found that we have robust systems in place to manage external recruitment and demonstrate solid understanding of recruitment principles. It also found that we complied properly with the principles for external recruitment, using open and fair recruitment practices, and that any use of exceptions again complied with the principles.

Overall, we were awarded a ‘green’ assurance rating.

### Accounting officer’s statement of effectiveness

As accounting officer, I have reviewed the effectiveness of the Commission’s governance structures, risk management and internal controls, informed by regular reporting from my executive directors, the results of internal audit and other external assurances. I have also taken into account:

- assurance letters from each of my directors summarising the effectiveness of their systems of governance, risk management and control;
- the annual report from the ARC provided to me and the board summarising its work for the year, stating its opinion that I may take moderate assurance over our arrangements for risk management and control;
- the opinion of G&RC this year that our governance structures remain fit for purpose and support the achievement of our regulatory purposes.

I have concluded that our arrangements are satisfactory and that we have robust action plans in place to address areas for improvement highlighted by the year’s activities.

## Remuneration and staff report

### 1. Remuneration report

#### Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise. All appointments are overseen by the Office of the Commissioner for Public Appointments.

All board members are on fixed term contracts from the Cabinet Office. Paula Sussex, David Holdsworth and David Jones are also on fixed term contracts. The CEO and the directors are all directly employed by the Commission.

Further information about the work of the Civil Service Commission can be found at:  
[www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

#### Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of board members and the most senior executive officials of the Commission.

#### Remuneration (audited)

| Board, Chair and Chief Executive                 | Fee/Salary<br>£'000                   |         | Bonus payment<br>£'000 |         | Pension benefits<br>£'000 |         | Total<br>£'000 |         |
|--|---------------------------------------|---------|------------------------|---------|---------------------------|---------|----------------|---------|
|  | 2016-17                               | 2015-16 | 2016-17                | 2015-16 | 2016-17                   | 2015-16 | 2016-17        | 2015-16 |
| William Shawcross CVO<br>Chair                   | 50-55                                 | 50-55   | 0                      | 0       | 0                         | 0       | 50-55          | 50-55   |
| Paula Sussex<br>Chief Executive                  | 130-135                               | 130-135 | 0                      | 0       | 51                        | 51      | 180-185        | 180-185 |
| Eryl Besse                                       | 15-20                                 | 20-25   | 0                      | 0       | 0                         | 0       | 15-20          | 20-25   |
| Claire Dove                                      | 0-5                                   | 0-5     | 0                      | 0       | 0                         | 0       | 0-5            | 0-5     |
| Orlando Fraser                                   | 0                                     | 0       | 0                      | 0       | 0                         | 0       | 0              | 0       |
| Tony Leifer                                      | 15-20                                 | 10-15   | 0                      | 0       | 0                         | 0       | 15-20          | 10-15   |
| Professor Gwythian Prins<br>(to 31 January 2017) | 5-10                                  | 20-25   | 0                      | 0       | 0                         | 0       | 5-10           | 20-25   |
| Mike Ashley                                      | 5-10                                  | 5-10    | 0                      | 0       | 0                         | 0       | 5-10           | 5-10    |
| Laurie Benson<br>(from 14 November 2016)         | 0-5 (5-10<br>full year<br>equivalent) | 0       | 0                      | 0       | 0                         | 0       | 0-5            | 0       |
| Paul Martin (from<br>14 November 2016)           | 0-5 (5-10<br>full year<br>equivalent) | 0       | 0                      | 0       | 0                         | 0       | 0-5            | 0       |
| Catherine Quinn (from 14<br>November 2016)       | 0-5 (5-10<br>full year<br>equivalent) | 0       | 0                      | 0       | 0                         | 0       | 0-5            | 0       |

| Directors        | Fee/Salary<br>£'000 |   | Bonus payment<br>£'000 |         | Pension benefits<br>£'000 |         | Total<br>£'000 |   |
|------------------|---------------------|---|------------------------|---------|---------------------------|---------|----------------|---|
|                  | 2016-17             | 2015-16                                     | 2016-17                | 2015-16 | 2016-17                   | 2015-16 | 2016-17        | 2015-16   |
| Sarah Atkinson   | 65-70               | 60-65                                       | 0-5                    | 0-5     | 27                        | 34      | 100-105        | 95-100  |
| Kenneth Dibble   | 105-110             | 105-110                                     | 0-5                    | 0-5     | 22                        | 36      | 130-135        | 145-150   |
| Michelle Russell | 75-80               | 75-80                                       | 0                      | 0-5     | 30                        | 50      | 105-110        | 130-135   |
| David Jones      | 90-95               | 80-85<br>(85-90<br>full year<br>equivalent) | 0                      | 0       | 27                        | 65      | 115-120        | 145-150<br>(150-155<br>full year<br>equivalent) |
| David Holdsworth | 80-85               | 30-35<br>(80-85<br>full year<br>equivalent) | 5-10                   | 0-5     | 32                        | 17      | 115-120        | 45-50<br>(95-100<br>full year<br>equivalent)    |

|  | 2016-17 | 2015-16 |
|--|---------|---------|
| Highest earner's total remuneration (£000) | 130-135 | 130-135 |
| Median total remuneration of all staff     | 30,293  | 30,382  |
| Ratio                                      | 4.3     | 4.3     |

No other benefits in kind were paid to the above officials.

All board members serving in 2016-17 received a fee of £350 per day, save for Orlando Fraser who provided his services at no cost during the year. No pension contributions are paid.

Our senior staff pay policy is in line with the work and recommendations of the Senior Salaries Review Body.

'Salary' includes: gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, and any other allowance to the extent that it is subject to UK taxation.

## Reimbursement of expenses

Expenses claimed by board members are in respect of actual receipted expenditure for travel, subsistence and accommodation. For the Chair, Chief Executive, Directors and other Commission staff, expenses claimed are in respect of costs expended for business travel and accommodation and subsistence allowance, in accordance with Civil Service guidelines. In 2016-17, the Commission published on its website details of expenses claimed by the Chair, board members and the Chief Executive on a quarterly basis.

## Pension benefits (audited)

|                                 | Accrued pension at age 60 at 31 March 2017 and related lump sum<br>(£'000) | Real increase in pension and related lump sum at age 60<br>(£'000) | CETV at 31 March 2017<br>(£'000) | CETV at 31 March 2016<br>(£'000) | Real increase in CETV<br>(£'000) |
|---------------------------------|--|--|----------------------------------|----------------------------------|----------------------------------|
| Paula Sussex<br>Chief Executive | 5-10   | 2.5-5  | 102                              | 64                               | 26                               |
| Sarah Atkinson                  | 10-15  | 0-2.5  | 120                              | 103                              | 8                                |
| Kenneth Dibble                  | 60-65 Plus 180-185 lump sum  | 0-2.5 Plus 2.5-5 lump sum  | 1,137                            | 1,130                            | 16                               |
| Michelle Russell                | 20-25  | 0-2.5  | 260                              | 235                              | 12                               |
| David Jones                     | 30-35  | 0-2.5  | 579                              | 531                              | 22                               |
| David Holdsworth                | 0-5  | 0-2.5  | 21                               | 7                                | 8                                |

## Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined Alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal retirement age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the

two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a ‘money purchase’ stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member’s earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.7% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer’s basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

### **Cash Equivalent Transfer Values (CETV)**

A Cash Equivalent Transfer Value is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member’s accrued benefits and any contingent spouse’s pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendments) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### **Real increase in CETV**

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

### **Civil Service voluntary exit packages**

No board members or senior executive officials left under the Civil Service Compensation Scheme (CSCS) voluntary exit terms in 2016-17.



## 2. Staff report

The following table demonstrates how the Commission's workforce has changed over the last two years:

|                             |  | 31 Mar 2015 | 31 Mar 2016 | 31 Mar 2017 |
|-----------------------------|--|-------------|-------------|-------------|
| Staff on payroll            | Number in post                               | 288         | 306         | 307         |
| Agency staff                | Number in post                               | 27          | 27          | 16          |
| Workforce shape             | Staff at Pay Band 3 and below                | 91          | 97          | 96          |
|                             | Staff at Pay Band 4 and above, excluding SCS | 191         | 203         | 205         |
|                             | Senior civil servants                        | 6           | 6           | 6           |
| Workforce diversity         | Black and minority ethnic                    | 6%          | 7%          | 9%          |
|                             | Women  | 51%         | 51%         | 53%         |
|                             | Disabled                                     | 13%         | 14%         | 16%         |
| Attendance                  | Average working days lost                    | 6 days      | 5 days      | 6 days      |
| Civil Service People Survey | Engagement Index %                           | 53%         | 55%         | 53%         |
| Pay multiple                | (ratio between highest and lowest paid)      | 7.5         | 7.7         | 7.6         |

### Supporting the change programme and consultation with staff

Maintaining communications with staff remained an important activity, more strongly accentuated as our change programme was in implementation phase across 2016-17 and continues. All staffing activity this year, whether workforce planning, recruitment, training or restructuring can be traced back to one of the five Transform Programme objectives:

- Enhancing our risk-led regulation
- Exploiting digital ways of working
- Improving our operational efficiency and effectiveness
- A Commission culture of pace, agility and consistency
- A sustainable funding model

Our change team which brings together professionals in change management, communications, HR and L&D worked closely with Programme SROs and project teams to ensure:

- a planned co-ordinated timetable for change
- a cohesive communications strategy with a separate communications plan for each strand of the programme
- effective implementation of staff change processes including job design, job matching, recruitment etc.
- developing training tools to support digital implementation and process change
- close working with our Trade Unions on reorganisation and change.

We meet with our unions monthly to provide regular opportunity for formal and informal consultation on matters impacting on our people. We continued to maintain good employee relations during the period despite the considerable challenges of our Transform Programme and increased work pressures as we work to deliver the best possible regulation within our small overall numbers.

We issued weekly updates/news bulletins to staff this year and made good use of interactive online tools, including our intranet site, to communicate important issues to staff, celebrate success and encourage continuous improvement. Staff consultations regularly featured on this site which has an 'ask a question' facility with the answers published at intervals throughout the year. Directors and board members held open staff sessions on each site which gave staff the opportunity to engage directly. HR sent out regular reminders over the year advising on a range of people-related pay and pension issues.

### **Restructuring**

As part of our change programme there has been internal restructuring to ensure we have the right skills and roles to take the Commission forward as a modern robust regulator. Our Policy and Communications Directorate underwent a restructuring to ensure the directorate could prioritise reaching trustees and influencing their behaviour, manage a clear digital content strategy and delivery plan and control digital channels of communication.

Our Operations Directorate is in the process of reorganising into four new divisions with the objective of future-proofing staff structures and skills to enable handling of increasing volumes and demand on services, exploiting digital technology and casework redesign. Our commitment to employee consultation is illustrated by this restructure where in order to ensure full consultation on the proposals 89 employees were given a one to one meeting with their manager; 50 consultation responses were received from the workforce. Changes were made as a direct result of the consultation.

The creation of our new Risk Assessment Unit (RAU) in 2016-17 reflects the corporate approach to charity risk that can be built into our systems and used to determine workflow priorities. This unit brought together people who had previously been split across three areas of the business.

### **Employee Engagement**

We want the Commission to be a great place to work so that we can be an effective regulator and improve public trust and confidence in the charity sector. We are committed to an inclusive and open culture and recognise that staff engagement is vital to the Commission's success. Senior management promotes a spirit of cooperation and partnership, in the interests of productivity, efficiency and the well-being of all Commission staff. This means an enabling culture of mutual respect, good internal communications and timely consultation on issues affecting staff and their conditions of service. It also means running regular staff surveys and taking action on the key results. Since 2011, we have been taking part in the Civil Service People Survey and we use the results to prioritise action to maintain staff engagement.

Whilst there are areas of strength – teamwork in particular – results for the employee survey 2016 were, in some areas, poorer than the previous year and our engagement index dropped by two points to 53%. As an organisation facing rapid change through our Transform Programme this is perhaps understandable. Our people were working hard to deliver both the change programme and business as usual activities and, with anticipated structure changes, many had concerns over the pace of change and future uncertainty of their jobs.

Our transformation is well underway but there is still a lot to do. Delivering new tools and technologies, and changing the way we work to take advantage of them is not straightforward and takes time. We recognise that we are on a journey and have created a programme for improving engagement.

To this end, the Board, together with Directors Group and the Wider Leadership Team, decided to take a different approach this year and so, rather than having directorate survey action plans, we have been working on themed engagement plans that can be taken forward in 2017-18. We are focusing on five themes that drive engagement:

- leadership and managing change
- resources and workload
- career progression, learning and development
- pay, reward and recognition
- inclusion and fair treatment.

Each topic is being sponsored by a Director and led by members of the wider leadership team. Already there are a series of interactive employee workshops planned to ensure colleagues are involved from across the Commission to develop these plans. Each theme will develop its own action plan agreed by the Directors Group.

### **Recognition and Reward**

Our lowest theme score, and the one that has dropped significantly on 2015 was pay and benefits reflecting the cumulative impact of Civil Service-wide pay restraint. Although we have been able to introduce some new benefits in 2016-17 (a cycle to work salary sacrifice scheme, a rental deposit loan scheme and a retail discount scheme – perk box) we recognise that this is not the same as a pay rise above the 1% increase to the payroll cap across government. It is clear this is an issue for us in supporting engagement as it is for much of the public sector. However we continue to do as much as we can to improve our total reward package and we have continued to use our new ‘Stars’ recognition scheme to reward staff at all levels for exceptional performance and commitment.

### **Learning & Development**

We aim to be a learning organisation, one that prioritises people’s personal development and provides opportunities to gain skills and knowledge for the short and longer term. This is clearly very important as we implement our change programme. The Directors Group agreed the learning priorities for 2016-17 and monitored the implementation of the action plan regularly. Our employees recorded an average of 3.9 days each on a wide range of learning activities (3.4 days 2015-16).

A key priority under our change programme for 2016-17 was to ensure our leaders are able to lead through change and to ensure that our employees have the skills and knowledge for the digital drops that have taken place in the year.

We worked to identify the four leadership behaviours that would help us most through this period of change. The Directors Group agreed these in June 2016 and we then developed a leadership programme with external partners for our 30 most senior leaders. This involved 180 reviews against the behaviours, targeted workshops, targeted coaching and some innovative joint coaching for the senior management teams of our two largest directorates that are on the frontline of the change programme. The programme was very successful and we are extending it in 2017-18 to over 50 managers at the next level. All our managers had a leadership objective based on the new leadership behaviours for 2016-17.

There was significant learning and development delivered by the business to the business in 2016-17 to increase skills and knowledge – e.g. legal workshops on all sites on the Charities Act 2016 and training in using the new casework archetypes.

We have also been working on an ambitious project to map the future core skills and knowledge that caseworkers will need across the business to enable skills gaps to be identified, learning solutions developed and support individual and team development. It has taken a lot of work to develop the framework, working closely with key staff across our Operations and IME directorates. It is due to be implemented in 2017-18 and will support recruitment, induction, development pathways and performance.

### **Equality and Diversity**

The Commission is committed to equality and diversity. In all our activities we aim to treat colleagues and customers fairly and with respect.

In 2016-17 we reconstituted our Equality and Diversity Values Group. It is chaired by a Board member with representatives from across the business including a Director.

We monitor our workforce against diversity targets covering ethnicity, gender, disability, sexual orientation, age, religion, and belief.

The Commission adheres to the Civil Service Code of Practice on the Employment of Disabled People. The code states that the Commission does not discriminate on grounds of disability. Access to employment, training and career development and advancement are based solely on competence required for the job and individual ability. This is reflected in the proportion of Commission staff with a declared disability, which continues to be significantly higher than the Civil Service average.

We also participate in the ‘two ticks’ guaranteed interview scheme for job applicants with a disability, and have an active Disability Forum for the benefit and support of staff.

The Commission actively encourages staff to get involved in social and community issues, in particular volunteering within the not for profit sector, and offers between one to five days paid time off if there is a clear benefit to an individual’s development in connection with their job.

### **Published sickness absence data**

Our strategies targeted at minimising sickness absence resulted in a year end figure of 6 average working days lost, a slight increase on the previous year. We have a number of measures to promote health and wellbeing and support managers to address absence with confidence. Tackling workplace stress continued as a priority this year. We monitor this closely on a monthly basis in order to provide support at the earliest stage possible for both the employee and for managers. Our stress risk assessment tool, based on guidance from the Health and Safety Executive, was used on several occasions during the year and all employees continue to have access to our confidential employee assistance programme.

## 2.1 Staff costs (audited)

|  | 2016-17                                   | 2016-17                                   | 2016-17        | 2015-16                                   | 2015-16                                   | 2015-16        |
|--|---|---|----------------|---|---|----------------|
|  | Permanently<br>employed<br>staff<br>£'000 | Temporarily<br>employed<br>staff<br>£'000 | Total<br>£'000 | Permanently<br>employed<br>staff<br>£'000 | Temporarily<br>employed<br>staff<br>£'000 | Total<br>£'000 |
| Wages and salaries   | 10,591                                    | 0   | 10,591         | 10,327                                    | 0   | 10,327         |
| Social security costs  | 1,103                                     | 0   | 1,103          | 831                                       | 0   | 831            |
| Other pension costs  | 2,113                                     | 0   | 2,113          | 2,062                                     | 0   | 2,062          |
| Agency staff   | 0   | 2,570                                     | 2,570          | 0   | 2,697                                     | 2,697          |
| Severance costs  | 347                                       | 0   | 347            | 168                                       | 0   | 168            |
| (Decrease)/increase<br>in IAS 19: employee<br>benefits accrual | 26  | 0   | 26             | 10  | 0   | 10             |
| <b>Total</b>   | <b>14,180</b>                             | <b>2,570</b>                              | <b>16,750</b>  | <b>13,398</b>                             | <b>2,697</b>                              | <b>16,095</b>  |
| Charged to capital   | (187)                                     | (641)                                     | (828)          | (258)                                     | (424)                                     | (682)          |
| <b>Total net costs</b>   | <b>13,993</b>                             | <b>1,929</b>                              | <b>15,922</b>  | <b>13,140</b>                             | <b>2,273</b>                              | <b>15,413</b>  |

As a non-ministerial government department, the Commission's pay costs relate to staff. There are no ministers or advisors.

The Principal Civil Service Pensions Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as 'alpha' are unfunded multi-employer defined benefit schemes but the Commission is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2016-17, employers' contributions of £1.515 million were payable to the PCSPS (£1.474 million in 2015-16) at one of four rates in the range 20.0% to 24.5% (20.0% to 24.5% in 2015-16) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016-17 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employers' contributions of £598k were paid to one or more of a panel of three appointed stakeholder pension providers (£589k in 2015-16). Employers' contributions are age-related and range from 8% to 14.75% (3% to 12.5% of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earnings from 1 October 2015). No staff members (one in 2015-16) retired early on ill health grounds the total additional accrued pension liabilities amounted to £nil (£75,669 in 2015-16).

Contributions due to the partnership pension providers at 31 March 2017 were £52,631 (£51,096 in 2015-16). Contributions prepaid at that date were £nil (£nil in 2015-16).

## 2.2 Average number of persons employed (audited)

The average numbers of full time equivalent persons, including senior management, employed during the year was as follows:

|                          | Permanently employed staff | Temporarily employed staff | 2016-17    | 2015-16    |
|--------------------------|----------------------------|----------------------------|------------|------------|
|                          | Number                     | Number                     | Number     | Number     |
| Charity Commission staff | 290                        | 0                          | 290        | 285        |
| Agency staff             | 0                          | 22                         | 22         | 25         |
| <b>Total</b>             | <b>290</b>                 | <b>22</b>                  | <b>312</b> | <b>310</b> |

## 2.3 Reporting of Civil Service and other compensation schemes – exit packages (audited)

Unless otherwise stated, redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972. Where the Commission has agreed early retirements, the additional costs are met by the Commission and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

The table below analyses these exits by cost bandings, (2015-16 shown in brackets).

| Exit package cost band        | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages |
|-------------------------------|-----------------------------------|-----------------------------------|-------------------------------|
| Less than £10,000             | 0<br>(0)                          | 1<br>(0)                          | 1<br>(0)                      |
| £10,000-£24,999               | 0<br>(0)                          | 3<br>(0)                          | 3<br>(0)                      |
| £25,000-£49,999               | 0<br>(0)                          | 3<br>(3)                          | 3<br>(3)                      |
| £50,000-£99,999               | 0<br>(0)                          | 3<br>(0)                          | 3<br>(0)                      |
| Total number of exit packages | 0<br>(0)                          | 10<br>(3)                         | 10<br>(3)                     |
| Total resource cost (£'000)   | 0<br>(0)                          | 309<br>(101)                      | 309<br>(101)                  |

|                      | 2016-17<br>£'000 | 2015-16<br>£'000 |
|----------------------|------------------|------------------|
| Highest exit package | 55-60            | 45-50            |
| Lowest exit package  | 5-10             | 25-30            |
| Mean exit package    | 25-30            | 30-35            |

In addition to the £309k above, the Commission incurred a £30k charge relating to additional pension costs for a prior year exit package, and an £8k increase in quoted costs due to the delaying of leaving dates of some staff. Therefore a total of £347k was incurred.

## Parliamentary Accounting Disclosures

### Statement of Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FRM) requires the Commission to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit. The SoPs and related notes are subject to audit.

### Summary of resource and capital outturn 2016-17

|                                       |       |               |          |               |               |          |               | 2016-17  | 2015-16       |
|---------------------------------------|-------|---------------|----------|---------------|---------------|----------|---------------|--|---------------|
| Estimate                              |       |               |          | Outturn       |               |          |               | Voted outturn compared with estimate: saving/ (excess) | Outturn       |
| SoPS note                             | Voted | Non-voted     | Total    | Voted         | Non-voted     | Total    | Total         |  |               |
| <b>Departmental expenditure limit</b> |       |               |          |               |               |          |               |  |               |
| - Resource                            | 1.1   | 22,890        | 0        | 22,890        | 22,766        | 0        | 22,766        | 124  | 22,785        |
| - Capital                             | 1.2   | 2,880         | 0        | 2,880         | 2,818         | 0        | 2,818         | 62   | 1,735         |
| <b>Annually managed expenditure</b>   |       |               |          |               |               |          |               |  |               |
| - Resource                            | 1.1   | 162           | 0        | 162           | 148           | 0        | 148           | 14   | (424)         |
| - Capital                             |       | 0             | 0        | 0             | 0             | 0        | 0             | 0  | 0             |
| <b>Total budget</b>                   |       | <b>25,932</b> | <b>0</b> | <b>25,932</b> | <b>25,732</b> | <b>0</b> | <b>25,732</b> | <b>200</b>   | <b>24,096</b> |
| <b>Non-budget</b>                     |       |               |          |               |               |          |               |  |               |
| - Resource                            | 1.1   | 0             | 0        | 0             | 0             | 0        | 0             | 0  | 0             |
| <b>Total</b>                          |       | <b>25,932</b> | <b>0</b> | <b>25,932</b> | <b>25,732</b> | <b>0</b> | <b>25,732</b> | <b>200</b>   | <b>24,096</b> |
| Total resource                        |       | 23,052        | 0        | 23,052        | 22,914        | 0        | 22,914        | 138  | 22,361        |
| Total capital                         |       | 2,880         | 0        | 2,880         | 2,818         | 0        | 2,818         | 62   | 1,735         |
| <b>Total</b>                          |       | <b>25,932</b> | <b>0</b> | <b>25,932</b> | <b>25,732</b> | <b>0</b> | <b>25,732</b> | <b>200</b>   | <b>24,096</b> |

Net cash requirement 2016-17

|                      |              |                   | 2016-17          | 2015-16   |                        |
|----------------------|--------------|-------------------|------------------|---|------------------------|
|                      | SoPS<br>note | Estimate<br>£'000 | Outturn<br>£'000 | Net outturn<br>compared<br>with estimate:<br>saving/(excess)<br>£'000 | Total outturn<br>£'000 |
| Net cash requirement | 2            | <b>25,010</b>     | <b>24,878</b>    | <b>132</b>  | <b>23,744</b>          |

Administration costs 2016-17

|  |                   |                  | 2015-16                |
|--|-------------------|------------------|------------------------|
|  | Estimate<br>£'000 | Outturn<br>£'000 | Total outturn<br>£'000 |
|  | <b>22,890</b>     | <b>22,766</b>    | <b>22,785</b>          |

Figures in the areas outlined in bold are voted totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

Explanations of variances between estimate and outturn are given in SoPS Note 2 and in the Management Commentary.

All estimate and outturn balances disclosed under the Departmental Expenditure Limit relate to administration costs. All estimate and outturn balances disclosed under Annually Managed Expenditure are classified as programme costs and relate to transactions in respect of provisions (see Note 11).



## Notes to the Statement of Parliamentary Supply

### SoPS 1. Net outturn

#### SoPS 1.1 Analysis of net resource outturn by section

| 2016-17  |               |                |               |            |          |            |               |               |                                | 2015-16       |
|--|---------------|----------------|---------------|------------|----------|------------|---------------|---------------|--------------------------------|---------------|
| Outturn  |               |                |               |            |          |            | Estimate      |               | Outturn                        |               |
| Administration   |               |                | Programme     |            |          |            | Total         | Net total     | Net total compared to estimate | Total         |
| Gross  | Income        | Net            | Gross         | Income     | Net      |            |               |               |                                |               |
| Spending in department expenditure limit                   |               |                |               |            |          |            |               |               |                                |               |
| Voted:   |               |                |               |            |          |            |               |               |                                |               |
| Giving the public confidence in the integrity of charities |               |                |               |            |          |            |               |               |                                |               |
| 24,052   | (1,286)       | 22,766         | 0             | 0          | 0        | 22,766     | 22,890        | 124           | 22,785                         |               |
| 24,052   | (1,286)       | 22,766         | 0             | 0          | 0        | 22,766     | 22,890        | 124           | 22,785                         |               |
| Annually managed expenditure                               |               |                |               |            |          |            |               |               |                                |               |
| Voted:   |               |                |               |            |          |            |               |               |                                |               |
| Giving the public confidence in the integrity of charities |               |                |               |            |          |            |               |               |                                |               |
| 0  | 0             | 0              | 148           | 0          | 148      | 148        | 162           | 14            | (424)                          |               |
| <b>Total</b>   | <b>24,052</b> | <b>(1,286)</b> | <b>22,766</b> | <b>148</b> | <b>0</b> | <b>148</b> | <b>22,914</b> | <b>23,052</b> | <b>138</b>                     | <b>22,361</b> |

#### SoPS 1.2 Analysis of net capital outturn by section

| 2016-17  |              |          |              |              |                                |              | 2015-16 |
|--|--------------|----------|--------------|--------------|--------------------------------|--------------|---------|
| Outturn  |              |          |              | Estimate     |                                | Outturn      |         |
| Gross  | Income       | Net      | Total        | Net          | Net total compared to estimate | Net          |         |
| Spending in department expenditure limit                   |              |          |              |              |                                |              |         |
| Voted:   |              |          |              |              |                                |              |         |
| Giving the public confidence in the integrity of charities |              |          |              |              |                                |              |         |
| 2,818  | 0            | 2,818    | 2,818        | 2,880        | 62                             | 1,735        |         |
| <b>Total</b>   | <b>2,818</b> | <b>0</b> | <b>2,818</b> | <b>2,880</b> | <b>62</b>                      | <b>1,735</b> |         |

## SoPS 2 Reconciliation of net resource outturn to net cash requirement

|  |           | Estimate      | Outturn       | Net total outturn compared with estimate: savings/(excess) |
|--|-----------|---------------|---------------|--|
|  | SoPS note | £'000         | £'000         | £'000  |
| <b>Resource outturn</b>                                      | 1.1       | 23,052        | 22,914        | 138  |
| <b>Capital outturn</b>                                       | 1.2       | 2,880         | 2,818         | 62   |
| <b>Accruals to cash adjustments:</b>                         |           |               |               |  |
| <i>Adjustments to remove non-cash items:</i>                 |           |               |               |  |
| Depreciation/amortisation                                    |           | (1,150)       | (1,112)       | (38)   |
| Revaluations   |           | 0             | (35)          | 35   |
| New provisions and adjustments to previous provisions        |           | (162)         | (150)         | (12)   |
| Auditors remuneration  |           | (70)          | (57)          | (13)   |
| <i>Adjustments to reflect movements in working balances:</i> |           |               |               |  |
| Increase/(decrease) in trade and other receivables           |           | 460           | 310           | 150  |
| (Increase)/decrease in trade and other payables              |           | 0             | 188           | (188)  |
| Use of provisions  |           | 0             | 2             | (2)  |
| <b>Net cash requirement</b>                                  |           | <b>25,010</b> | <b>24,878</b> | <b>132</b>   |

**Regularity of expenditure (audited)**

There are no material losses and special payments for the year.

There are no material remote contingent liabilities for the year.

Fees and charges disclosure requirements under Managing Public Money are met in Note 2 to the Accounts. The column headed 'Other Government Funded projects' relates wholly to services for which costs are fully recovered.

**Paula Sussex**  
Chief Executive and Accounting Officer

30 June 2017

## The certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Charity Commission for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that are described in those reports and disclosures as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2017 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2017 and of the Department's net operating expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

### Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London, SW1W 9SP

6 July 2017



# Resource accounts

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## Statement of Comprehensive Net Expenditure

For the year ended 31 March 2017

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

The notes on pages 86 to 95 form part of the financial statements.

| 2016-17                            | 2016-17 | 2015-16        |                |
|------------------------------------|---------|----------------|----------------|
|                                    | Note    | £'000          | £'000          |
| Operating income                   | 4       | (1,286)        | (1,421)        |
| <b>Total operating income</b>      |         | <b>(1,286)</b> | <b>(1,421)</b> |
| Staff costs                        | 3       | 15,922         | 15,413         |
| Other administration costs         | 3       | 8,278          | 8,369          |
| <b>Total operating expenditure</b> |         | <b>24,200</b>  | <b>23,782</b>  |
| <b>Net operating expenditure</b>   |         | <b>22,914</b>  | <b>22,361</b>  |

## Statement of Financial Position

### As at 31 March 2017

The Statement of Financial Position is a summary of all the Commission's assets and liabilities as at 31 March 2017.

The notes on pages 86 to 95 form part of the financial statements.

|  |      | 31 March 2017 | 31 March 2016 |
|--|------|---------------|---------------|
|  | Note | £'000         | £'000         |
| <b>Non-current assets:</b>               |      |               |               |
| Property, plant and equipment            | 5    | 475           | 730           |
| Intangible assets                        | 6    | 3,608         | 1,682         |
| <i>Total non-current assets</i>          |      | 4,083         | 2,412         |
| <b>Current assets:</b>                   |      |               |               |
| Trade, other receivables and prepayments | 9    | 1,168         | 858           |
| Cash and cash equivalents                | 8    | 132           | 737           |
| <i>Total current assets</i>              |      | 1,300         | 1,595         |
| <b>Total assets</b>                      |      | <b>5,383</b>  | <b>4,007</b>  |
| <b>Current liabilities:</b>              |      |               |               |
| Trade and other payables                 | 10   | (3,557)       | (4,350)       |
| Provisions                               | 11   | (150)         | (2)           |
| <i>Total current liabilities</i>         |      | (3,707)       | (4,352)       |
| <b>Total assets less liabilities</b>     |      | <b>1,676</b>  | <b>(345)</b>  |
| <b>Taxpayers' equity:</b>                |      |               |               |
| General fund                             |      | 1,676         | (345)         |
| <b>Total taxpayers' equity</b>           |      | <b>1,676</b>  | <b>(345)</b>  |

Paula Sussex  
Chief Executive and Accounting Officer

30 June 2017

## Statement of Cash Flows

For the year ended 31 March 2017

The Statement of Cash Flows records the actual transfer of cash into and out of the Commission during the financial year.

The notes on pages 86 to 95 form part of the financial statements.

|  |      | 2016-17         | 2015-16         |
|--|------|-----------------|-----------------|
|  | Note | £'000           | £'000           |
| <b>Cash flows from operating activities</b>              |      |                 |                 |
| Total Net operating cost                                 |      | (22,914)        | (22,361)        |
| Non-cash transactions                                    | 3    | 1,217           | 777             |
| Movements in dilapidation provisions                     | 3    | 150             | (195)           |
| Increase in trade and other receivables                  | 9    | (310)           | (150)           |
| Decrease in trade and other payables                     | 10   | (188)           | 165             |
| Use of provisions  | 11   | (2)             | (229)           |
| <b>Net cash outflow from operating activities</b>        |      | <b>(22,047)</b> | <b>(21,993)</b> |
| <b>Cash flows from investing activities</b>              |      |                 |                 |
| Purchase of plant, property and equipment                | 5    | (172)           | (459)           |
| Purchase of intangible assets                            | 6    | (2,659)         | (1,292)         |
| <b>Net cash outflow from investing activities</b>        |      | <b>(2,831)</b>  | <b>(1,751)</b>  |
| <b>Cash flows from financing activities</b>              |      |                 |                 |
| From Consolidated Fund (Supply) – current year           |      | 24,273          | 23,892          |
| <b>Net financing</b>                                     |      | <b>24,273</b>   | <b>23,892</b>   |
| Net increase/(decrease) in cash in the period            |      | (605)           | 148             |
| Cash and cash equivalents at the beginning of the period |      | 737             | 589             |
| Cash and cash equivalents at the end of the period       |      | 132             | 737             |



## Statement of Changes in Taxpayers' Equity

### For the year ended 31 March 2017

The Statement of Changes in Taxpayers' Equity summarises the movement in the net worth of the Commission.

The notes on pages 86 to 95 form part of the financial statements.

|   |      |                     |
|---|------|---------------------|
|   | Note | £'000               |
| <b>Balance at 1 April 2016</b>                                |      | <u>(345)</u>        |
| Non-cash charges – auditor's remuneration                     | 3    | 57                  |
| Net operating cost for the year                               |      | <u>(22,914)</u>     |
| <b><i>Total recognised income and expense for 2016-17</i></b> |      | <b>(22,857)</b>     |
| Net Parliamentary Funding – drawn down                        |      | 24,273              |
| Net Parliamentary Funding – deemed                            |      | 737                 |
| Supply payable  |      | (132)               |
| <b>Balance as at 31 March 2017</b>                            |      | <u><b>1,676</b></u> |
| <br>Changes in taxpayers' equity for 2015-16                  |      |                     |
|   |      | £'000               |
| <b>Balance as at 1 April 2015</b>                             |      | <u>(1,785)</u>      |
| Non-cash charges – auditor's remuneration                     | 3    | 57                  |
| Net operating cost for the year                               |      | <u>(22,361)</u>     |
| <b><i>Total recognised income and expense for 2015-16</i></b> |      | <b>(22,304)</b>     |
| Net Parliamentary Funding – drawn down                        |      | 23,892              |
| Net Parliamentary Funding – deemed                            |      | 589                 |
| Supply payable  |      | (737)               |
| <b>Balance as at 31 March 2016</b>                            |      | <u><b>(345)</b></u> |

## Notes to the departmental resource accounts

### 1. Statement of accounting policies

These financial statements, which cover the accounting period 1 April 2016 to 31 March 2017, have been prepared in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Commission for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Commission are described below. They have been applied consistently in dealing with items that are considered material to the financial statements.

In addition to the primary statements prepared under IFRS, the FReM also requires the Commission to prepare one additional primary statement. The Statement of Parliamentary Supply and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement.

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment and intangible assets.

#### 1.2 Property, plant and equipment

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis where that expenditure exceeds £1,000 and the benefit it yields has a life of more than one year. Expenditure on routine repairs and maintenance that does not add to the value of the asset is not capitalised. Grouped assets with a total value exceeding £1,000 and individual item value exceeding £500 are also capitalised.

Property, plant and equipment held for their service potential are stated at depreciated historical cost which is regarded as a suitable proxy for current value in use given their short lives and low value. Such expenditure includes any costs such as installation directly attributable to bringing them into working condition.

#### 1.3 Intangible assets

Intangible assets are assets that do not have physical substance but are identified and controlled by the Commission and have a life of more than one year, such as software licences. Expenditure on intangible assets is initially recorded at cost. This includes directly attributable costs for bringing the intangible asset into use. Intangible assets will only be recognised where these costs exceed £1,000. Once the assets have been brought into use they are amortised at a rate calculated to write them down to an estimated residual value on a straight line basis over their estimated useful life. They are therefore stated at depreciated historical cost which is regarded as a suitable proxy for depreciated replacement cost as any indexation would not be material.

## 1.4 Depreciation and Amortisation

Property, plant and equipment and intangible assets are depreciated/amortised at a rate calculated to write down their value to their estimated residual value on a straight line basis over their estimated useful life. Depreciation on property, plant and equipment, and amortisation on intangible assets, is applied in the year of acquisition for purchased assets or, in the case of assets under construction, in the year which the asset is brought into use.

Asset life is normally in the following ranges:

|                        |                                      |
|------------------------|--------------------------------------|
| Information technology | 2-7 years                            |
| Furniture and fittings | 5-7 years                            |
| Leasehold improvements | Term of lease or initial break point |
| IT databases           | 2-5 years                            |
| Websites               | 5 years                              |
| Laptops                | 3 years                              |

## 1.5 Impairments

The value of databases and assets under construction are reviewed at the end of each financial year for evidence of reduction in value. Where an impairment is identified that is attributable to the clear consumption of future economic benefit, the loss is charged to the Statement of Comprehensive Net Expenditure.

## 1.6 Inventories

The Commission only holds inventories (stock) of stationery, computer spares and similar consumables for its own use. Due to the nature and low value of these items, they are not recorded in the Statement of Financial Position. The full cost of these items is recognised in the Statement of Comprehensive Net Expenditure at the point they are received.

## 1.7 Operating income

Operating income is income which relates directly to the operating activities of the Commission. Operating income is stated net of VAT. Income is recognised as it is earned.

## 1.8 Administration expenditure

Administration expenditure reflects the costs of running the Commission. The classification of expenditure as administration follows the definition of administration costs set by HM Treasury.

## 1.9 Foreign currency

As part of the Commission's International Programme, work is undertaken in foreign countries and expenditure will be incurred in the local currency. These transactions are converted into £ sterling using the exchange rate at, or close to, the official exchange rate on the date of the transaction.

### 1.10 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme and alpha scheme, which are described in Note 3. The Commission recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and alpha, and is not, therefore, reflected in the Commission's Statement of Financial Position. In respect of the defined contribution schemes, the Commission recognises the contributions payable for the year.

### 1.11 Leases

The Commission holds only operating leases as recognised under International Accounting Standard (IAS) 17. A lease is classified as a finance lease if a substantial element of the risk and reward associated with ownership of the asset is borne by the Commission. All other leases are classified as operating leases. Rental payments due in respect of operating leases are charged directly to the Statement of Comprehensive Net Expenditure on a straight line basis over the term of the lease.

### 1.12 Provisions

Where the Commission incurs a legal or constructive liability to make a payment, the amount and timing of which are uncertain at the Statement of Financial Position date, a provision is created on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by the Treasury (currently -2.7% for short-term provisions).

### 1.13 Value added tax

Most of the activities of the Commission are outside the scope of VAT. In general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT on revenue expenditure is charged to the Statement of Comprehensive Net Expenditure. VAT incurred on capital expenditure is included within the cost of property, plant and equipment and intangible assets. Where output VAT is charged or input VAT is recoverable, the amounts are stated net of VAT.

### 1.14 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the Commission discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*. Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament noted separately. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

### 1.15 Significant estimates and judgements

The Commission is required, when applying its accounting policies, to make certain judgements, estimates and associated assumptions relating to assets, liabilities, income and expenditure. These judgements, estimates and associated assumptions are based on knowledge of current facts and circumstances, assumptions concerning past events and forecasts of future events and actions. Actual results may differ from the estimates stated for the provisions and the useful economic lives of the tangible and intangible assets.

## 1.16 IFRS that have been issued but are not yet effective

The following have been issued but are not yet effective:

IFRS 9 Financial Instruments was issued in July 2014, effective for periods beginning on or after 1 January 2018. HM Treasury is working towards implementing the standard in the FReM from 2018-19.

IFRS 16 Leases was issued in January 2016, effective for periods beginning on or after 1 January 2019. The introduction of IFRS 16 is subject to analysis and review by HM Treasury and the other Relevant Authorities. HM Treasury will issue an Exposure Draft on IFRS 16 in advance of the effective date.

## 2. Statement of operating costs by Operating Segment

For internal reporting purposes, the Charity Commission operates two segments: Charity Commission core business and other Government funded projects. The other Government funded projects are reported separately as they have their own funding streams and are operated as distinct units within the Commission. The primary financial statements record the total income, expenditure, assets and liabilities of the Charity Commission and the other Government funded projects. The table below shows the amounts attributable to the two segments.

|                   | 2016-17                           |                                  |         | 2015-16                           |                                  |         |
|-------------------|-----------------------------------|----------------------------------|---------|-----------------------------------|----------------------------------|---------|
|                   | £'000                             |                                  |         | £'000                             |                                  |         |
|                   | Charity Commission: core business | Other government-funded projects | Total   | Charity Commission: core business | Other government-funded projects | Total   |
| Gross Expenditure | 22,914                            | 1,286                            | 24,200  | 22,361                            | 1,421                            | 23,782  |
| Income            | 0                                 | (1,286)                          | (1,286) | 0                                 | (1,421)                          | (1,421) |
| Net Expenditure   | 22,914                            | 0                                | 22,914  | 22,361                            | 0                                | 22,361  |
|                   |                                   |                                  |         |                                   |                                  |         |
| Total Assets      | 5,100                             | 283                              | 5,383   | 3,742                             | 265                              | 4,007   |
| Total Liabilities | (3,688)                           | (19)                             | (3,707) | (4,352)                           | 0                                | (4,352) |
| Net Assets        | 1,412                             | 264                              | 1,676   | (610)                             | 265                              | (345)   |

## 3 Expenditure

|  | 2016-17       | 2015-16       |
|--|---------------|---------------|
| <b>Staff costs:</b>                                      | £'000         | £'000         |
| Wages and salaries                                       | 10,591        | 10,327        |
| Social security costs                                    | 1,103         | 831           |
| Other pension costs                                      | 2,113         | 2,062         |
| Agency staff   | 2,570         | 2,697         |
| Severance costs  | 347           | 168           |
| (Decrease)/increase in IAS 19: employee benefits accrual | 26            | 10            |
| <b>Total</b>   | <b>16,750</b> | <b>16,095</b> |
| Charged to capital                                       | (828)         | (682)         |
| <b>Total net costs</b>                                   | <b>15,922</b> | <b>15,413</b> |

## RESOURCE ACCOUNTS

|   |       | 2016-17      | 2015-16      |
|---|-------|--------------|--------------|
|   | Notes | Total        | Total        |
|   |       | £'000        | £'000        |
| <b>Goods and services:</b>                  |       |              |              |
| Rentals under operating leases              |       | 707          | 1,077        |
| Non-cash items:                             |       |              |              |
| Depreciation                                | 5     | 414          | 343          |
| Amortisation                                | 6     | 698          | 360          |
| Revaluation/re-lived assets                 | 5 & 6 | 35           | 1            |
| Loss on disposal of fixed asset             | 5 & 6 | 13           | 16           |
| Auditor's remuneration                      |       | 57           | 57           |
| Total non-cash items:                       |       | 1,217        | 777          |
| Other expenditure:                          |       |              |              |
| Travel, subsistence and staff related costs |       | 1,243        | 1,028        |
| Accommodation                               |       | 325          | 660          |
| Office services                             |       | 260          | 330          |
| Contracted services/consultancy             |       | 772          | 460          |
| Information Systems and Telephony           |       | 3,333        | 3,841        |
| Specialist services                         |       | 270          | 371          |
| Losses and special payments                 |       | 1            | 20           |
| Increase/decrease in provisions             |       | 150          | 12           |
| Provisions written back in year             |       | 0            | (207)        |
| <b>Total expenditure</b>                    |       | <b>8,278</b> | <b>8,369</b> |

The total expenses relating to non-capital expenditure on the Transform Programme was £2.489 million (2015-16 £2.926 million).

### Auditors

This year's resource accounts have been audited by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General. No further services were provided by the NAO. The cost of audit work was £56,000 (2015-16: £56,000). In addition, a fee of £1,000 (2015-16: £1,000) was charged to the Commission in 2016-17 for the audit of the Official Custodian of Charities' 2016-17 Financial Statements).

### 4 Income

|   | 2016-17      | 2015-16      |
|---|--------------|--------------|
|   | £'000        | £'000        |
| Income received from other UK government departments:             |              |              |
| in respect of the International and Counter Terrorism Programmes: | 1,153        | 1,062        |
| in respect of services rendered                                   | 133          | 359          |
| <b>Total income</b>   | <b>1,286</b> | <b>1,421</b> |

## 5 Property, plant and equipment

|  | Information<br>technology | Furniture and<br>fittings | Leasehold<br>improvements | Total        |
|--|---------------------------|---------------------------|---------------------------|--------------|
|  | £'000                     | £'000                     | £'000                     | £'000        |
| <b>2016-17</b>                         |                           |                           |                           |              |
| <b>Cost or valuation</b>               |                           |                           |                           |              |
| At 1 April 2016                        | 1,788                     | 63                        | 509                       | 2,360        |
| Additions                              | 172                       | 0                         | 0                         | 172          |
| Disposals                              | (344)                     | 0                         | 0                         | (344)        |
| <b>At 31 March 2017</b>                | <b>1,616</b>              | <b>63</b>                 | <b>509</b>                | <b>2,188</b> |
| <b>Depreciation</b>                    |                           |                           |                           |              |
| At 1 April 2016                        | 1,415                     | 35                        | 180                       | 1,630        |
| Charged in year                        | 238                       | 13                        | 163                       | 414          |
| Disposals                              | (331)                     | 0                         | 0                         | (331)        |
| <b>At 31 March 2017</b>                | <b>1,322</b>              | <b>48</b>                 | <b>343</b>                | <b>1,713</b> |
| <b>Net book value at 31 March 2016</b> | <b>373</b>                | <b>28</b>                 | <b>329</b>                | <b>730</b>   |
| <b>Net book value at 31 March 2017</b> | <b>294</b>                | <b>15</b>                 | <b>166</b>                | <b>475</b>   |
| <b>2015-16</b>                         |                           |                           |                           |              |
| <b>Cost or valuation</b>               |                           |                           |                           |              |
| At 1 April 2015                        | 1,649                     | 283                       | 342                       | 2,274        |
| Additions                              | 288                       | 4                         | 167                       | 459          |
| Re-lived assets                        | (1)                       | 0                         | 0                         | (1)          |
| Disposals                              | (148)                     | (224)                     | 0                         | (372)        |
| <b>At 31 March 2016</b>                | <b>1,788</b>              | <b>63</b>                 | <b>509</b>                | <b>2,360</b> |
| <b>Depreciation</b>                    |                           |                           |                           |              |
| At 1 April 2015                        | 1,312                     | 246                       | 84                        | 1,642        |
| Charged in year                        | 235                       | 13                        | 96                        | 344          |
| Disposals                              | (132)                     | (224)                     | 0                         | (356)        |
| <b>At 31 March 2016</b>                | <b>1,415</b>              | <b>35</b>                 | <b>180</b>                | <b>1,630</b> |
| <b>Net book value at 31 March 2015</b> | <b>337</b>                | <b>37</b>                 | <b>258</b>                | <b>632</b>   |
| <b>Net book value at 31 March 2016</b> | <b>373</b>                | <b>28</b>                 | <b>329</b>                | <b>730</b>   |

6 Intangible assets

|  | Databases and management systems | Websites  | Licenses  | Assets under construction | Total         |
|--|----------------------------------|-----------|-----------|---------------------------|---------------|
|  | £'000                            | £'000     | £'000     | £'000                     | £'000         |
| <b>2016-17</b>                         |                                  |           |           |                           |               |
| <b>Cost or valuation</b>               |                                  |           |           |                           |               |
| At 1 April 2016                        | 8,427                            | 28        | 56        | 402                       | 8,913         |
| Additions                              | 0                                | 0         | 0         | 2,659                     | 2,659         |
| Transfers                              | 1,223                            | 0         | 0         | (1,223)                   | 0             |
| Disposals                              | 0                                | 0         | 0         | 0                         | 0             |
| Impairment                             | 0                                | 0         | 0         | (35)                      | (35)          |
| <b>At 31 March 2017</b>                | <b>9,650</b>                     | <b>28</b> | <b>56</b> | <b>1,803</b>              | <b>11,537</b> |
| <b>Amortisation</b>                    |                                  |           |           |                           |               |
| At 1 April 2016                        | 7,203                            | 17        | 11        | 0                         | 7,231         |
| Charged in year                        | 682                              | 5         | 11        | 0                         | 698           |
| Disposals                              | 0                                | 0         | 0         | 0                         | 0             |
| Revaluation                            | 0                                | 0         | 0         | 0                         | 0             |
| <b>At 31 March 2017</b>                | <b>7,885</b>                     | <b>22</b> | <b>22</b> | <b>0</b>                  | <b>7,929</b>  |
| <b>Net book value at 31 March 2016</b> | <b>1,224</b>                     | <b>11</b> | <b>45</b> | <b>402</b>                | <b>1,682</b>  |
| <b>Net book value at 31 March 2017</b> | <b>1,765</b>                     | <b>5</b>  | <b>34</b> | <b>1,803</b>              | <b>3,608</b>  |
| <b>2015-16</b>                         |                                  |           |           |                           |               |
| <b>Cost or valuation</b>               |                                  |           |           |                           |               |
| At 1 April 2015                        | 7,462                            | 28        | 0         | 131                       | 7,621         |
| Additions                              | 0                                | 0         | 56        | 1,236                     | 1,292         |
| Transfers                              | 965                              | 0         | 0         | (965)                     | 0             |
| Disposals                              | 0                                | 0         | 0         | 0                         | 0             |
| Revaluation (write-off)                | 0                                | 0         | 0         | 0                         | 0             |
| <b>At 31 March 2016</b>                | <b>8,427</b>                     | <b>28</b> | <b>56</b> | <b>402</b>                | <b>8,913</b>  |
| <b>Amortisation</b>                    |                                  |           |           |                           |               |
| At 1 April 2015                        | 6,860                            | 11        | 0         | 0                         | 6,871         |
| Charged in year                        | 343                              | 6         | 11        | 0                         | 360           |
| Disposals                              | 0                                | 0         | 0         | 0                         | 0             |
| Revaluation                            | 0                                | 0         | 0         | 0                         | 0             |
| <b>At 31 March 2016</b>                | <b>7,203</b>                     | <b>17</b> | <b>11</b> | <b>0</b>                  | <b>7,231</b>  |
| <b>Net book value at 31 March 2015</b> | <b>602</b>                       | <b>17</b> | <b>0</b>  | <b>131</b>                | <b>750</b>    |
| <b>Net book value at 31 March 2016</b> | <b>1,224</b>                     | <b>11</b> | <b>45</b> | <b>402</b>                | <b>1,682</b>  |



All intangible assets are owned by the Commission. There are no intangible assets held under finance leases (nil in 2015-16). Assets under construction represent expenditure on IT developments.

The aggregate amount of £nil (£985k 2015-16) has been recognised as research and development expenditure during the period.

## 7 Capital and other commitments

### 7.1 Capital commitments

As at 31 March 2017, the Commission had no capital commitments (nil as at 31 March 2016).

### 7.2 Operating leases

Total future minimum lease payments under operating leases are given in the table below, analysed according to the period in which the lease expires.

|   | 2016-17      | 2015-16      |
|---|--------------|--------------|
|   | £'000        | £'000        |
| <b>Obligations under operating leases comprise:</b> |              |              |
| <b>Buildings</b>                                    |              |              |
| Not later than one year                             | 678          | 679          |
| Later than one year and not later than five years   | 1,406        | 1,162        |
| Later than five years                               | 1,349        | 0            |
|   | <u>3,433</u> | <u>1,841</u> |

The Charity Commission holds leases on four sites where rent is calculated on floor area utilised and is payable on a quarterly basis.

## 8 Cash and cash equivalents

|  | 2016-17    | 2015-16    |
|--|------------|------------|
|  | £'000      | £'000      |
| Balance at 1 April                               | 737        | 589        |
| Net change in cash and cash equivalent balances  | (605)      | 148        |
| <b>Balance at 31 March</b>                       | <u>132</u> | <u>737</u> |
| <br>   |            |            |
| The following balances at 31 March were held at: |            |            |
| Government Banking Services                      | 132        | 737        |
| <b>Balance at 31 March</b>                       | <u>132</u> | <u>737</u> |

The Commission holds no cash equivalents.

## 9 Trade, other receivables and prepayments

|   | 2016-17      | 2015-16    |
|---|--------------|------------|
|   | £'000        | £'000      |
| <b>Amounts falling due within one year:</b> |              |            |
| VAT   | 473          | 274        |
| Other receivables                           | 102          | 177        |
| Prepayments and accrued income              | 593          | 407        |
|   | <b>1,168</b> | <b>858</b> |

## 10 Trade and other payables

|   | 2016-17      | 2015-16      |
|---|--------------|--------------|
|   | £'000        | £'000        |
| <b>Amounts falling due within one year:</b>                                     |              |              |
| Taxation and social security  | 307          | 260          |
| Trade payables  | 1,183        | 1,188        |
| Other payables  | 12           | 4            |
| Staff exit costs  | 344          | 238          |
| Accruals and deferred income  | 1,579        | 1,923        |
| Amounts issued from the Consolidated Fund for Supply but not spent at year end* | 132          | 737          |
|   | <b>3,557</b> | <b>4,350</b> |

\*For the purposes of the Cash flow Statement, movements in these figures are excluded

## 11 Provisions for liabilities and charges

|                            | Early departure costs | Property dilapidation | Total 2016-17 | Total 2015-16 |
|----------------------------|-----------------------|-----------------------|---------------|---------------|
|                            | £'000                 | £'000                 | £'000         | £'000         |
| Balance at 1 April         | 2                     | 0                     | 2             | 426           |
| Provided in year           | 0                     | 150                   | 150           | 12            |
| Provision utilised in year | (2)                   | 0                     | (2)           | (229)         |
| Provision written back     | 0                     | 0                     | 0             | (207)         |
| <b>Balance at 31 March</b> | <b>0</b>              | <b>150</b>            | <b>150</b>    | <b>2</b>      |

### 11.1 Analysis of expected timing of cash flows

|                        | Payment by<br>31 March 2018 | Payment after<br>1 April 2019 | Total      |
|------------------------|-----------------------------|-------------------------------|------------|
|                        | £'000                       | £'000                         | £'000      |
| Property dilapidations | 150                         | 0                             | 150        |
| <b>Total</b>           | <b>150</b>                  | <b>0</b>                      | <b>150</b> |

### 11.2 Early departure costs

The Commission meets the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Commission provides in full for this when the early retirement programme becomes binding on it, by establishing a provision for the estimated payments discounted by the Treasury discount rate of 1.5% in real terms. This provision does not apply to staff leaving under voluntary exit schemes.

### 11.3 Property dilapidation

All held provisions for dilapidations relate to our current London office.

### 11.4 Legal

The Commission had no material legal commitments or liabilities as at 31 March 2017.

### 12 Contingent liabilities

The Commission has no contingent liabilities judged to be probable or material at 31 March 2017 (nil as at 31 March 2016).

### 13 Related party transactions

During the year 2016-17, no Board Member, key manager or other related parties undertook any material transactions with the Commission except remuneration (Board and senior staff salaries are disclosed within the remuneration report). As an entity, the Commission had a small number of transactions with other government departments and other central government bodies. These transactions were with the Foreign and Commonwealth Office, the Home Office, the Department for Work and Pension, the Office of National Statistics, the Office of Civil Society, the Government Internal Audit Agency, and the Charity Commission for Northern Ireland. All transactions were undertaken on arm's length terms.

### 14 Events after the reporting period date

There have been no events after the Statement of Financial Position date requiring an adjustment to the financial statements. The Annual Report and Accounts were authorised for issue on the same date that the Comptroller and Auditor General signed his certificate.

## Glossary (not audited)

### Accruals

Income or expenditure relating to the financial year which had not been received or paid by the financial year end but is reflected in the financial statements.

### Amortisation

The writing off of the value of an intangible asset over the useful life of that asset.

### Annually Managed Expenditure (AME)

Expenditure incurred by the Commission that falls outside the scope of DEL control totals. In general, this relates to the creation of and increase to provisions.

### Capital expenditure

Expenditure greater than £1,000 on the acquisition or construction of plant, property and equipment and intangible assets, or on enhancing the value of such assets. Grouped assets with a total value exceeding £1,000 and individual item value exceeding £500 are also capitalised.

### Comprehensive Spending Review

A three-year plan setting out the aims and objectives of the Commission and the related funding and spending budgets.

### Consolidated fund

The government's 'current account' operated by HM Treasury and used to finance central government spending. The main source of income to the Fund is taxation receipts.

### Consolidated Fund Extra Receipts (CFERs)

Income received by the Commission which we are not authorised by Parliament to use to offset our expenditure. CFERs are paid into the Consolidated Fund.

### Contingent liability

A possible liability to make a future payment that is dependent on the outcome of certain events, for example, legal action.

### Corporate governance

The systems and processes by which organisations are directed and controlled to ensure they meet their aims and fulfil statutory requirements.

### Delegated Expenditure Limit (DEL)

A control total specified for the Commission. Separate DELs are set for Resource and Capital. The Commission's expenditure cannot exceed its DEL.

### Depreciation

The measure of wearing out, consumption or other reduction in the useful economic life of property, plant and machinery.

**Estimate/supply estimate**

A summary of the resources and cash voted by Parliament to the Commission for the financial year, against which we monitor our expenditure.

**Excess vote**

Additional funding that is approved by Parliament where expenditure by a government department exceeds the estimate for the financial year.

**Finance lease**

A lease that transfers substantially the risks and rewards of ownership of the asset to the lessee.

**Financial instrument**

A contract that gives rise to a financial asset for one party and a financial liability to another party.

**Financial Reporting Manual (FreM)**

The technical accounting guide to preparing the financial statements of government departments, written by HM Treasury.

**General Fund**

This represents the historic costs of the total assets less the liabilities of the Commission. It is included in Taxpayers' Equity in the Statement of Financial Position.

**Impairment**

The reduction in value of plant, property and equipment and intangible assets reflecting either the consumption of economic benefits, such as obsolescence, or physical damage, or a general fall in prices.

**International Financial Reporting Standards (IFRS)**

The financial reporting standards under which the Commission's financial statements are prepared. IFRSs are set by the International Accounting Standards Board.

**Managing Public Money**

HM Treasury publication setting out the principles government departments should follow when dealing with resources.

**Materiality**

The extent to which a misstatement or omission in the financial statements might reasonably be expected to impact on the understanding of the reader.

**National Audit Office (NAO)**

The external auditors of the Commission.

**Net book value**

The amount at which non-current assets are included in the Statement of Financial Position after providing for amortisation, depreciation and revaluations.

## RESOURCE ACCOUNTS

### **Net cash requirement**

The amount of cash to be released from the Consolidated Fund to fund the Commission's expenditure for the financial year. The net cash requirement will be different from the DEL as DEL takes into account 'non-cash' expenditure such as depreciation and notional charges for which there is no physical transfer of cash.

### **Net current replacement cost**

The current cost of replacing or recreating an asset in its existing use.

### **Net resource outturn**

The net total of income and expenditure of the Commission during the financial year.

### **Non cash transactions**

Items of expenditure that are recognised in the Commission's financial statements but do not give rise to the physical transfer of cash, for example, depreciation.

### **Operating lease**

A lease where the risks and rewards of ownership of the asset rest substantially with the lessor.

### **Outturn**

The actual level of expenditure and income for the financial year.

### **Prepayment**

Payment in the current financial year for goods or services to be received or provided in the next financial year.

### **Provisions**

Amounts set aside to fund known liabilities relating to the current or previous financial years, the exact timing and amount of which is uncertain.

### **Resource expenditure**

Expenditure on non-capital related activity, which is either subject to the Delegated Expenditure Limit (DEL) or Annually Managed Expenditure (AME).

### **Supply**

The resources voted to the Commission by Parliament.

### **Trade payables**

These are amounts the Commission owes for goods and services received in the financial year for which payment has not been made by the year end.

### **Trade receivables**

These are amounts owing to the Commission for goods or services provided in the financial year for which payment has not been received by the year end.



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