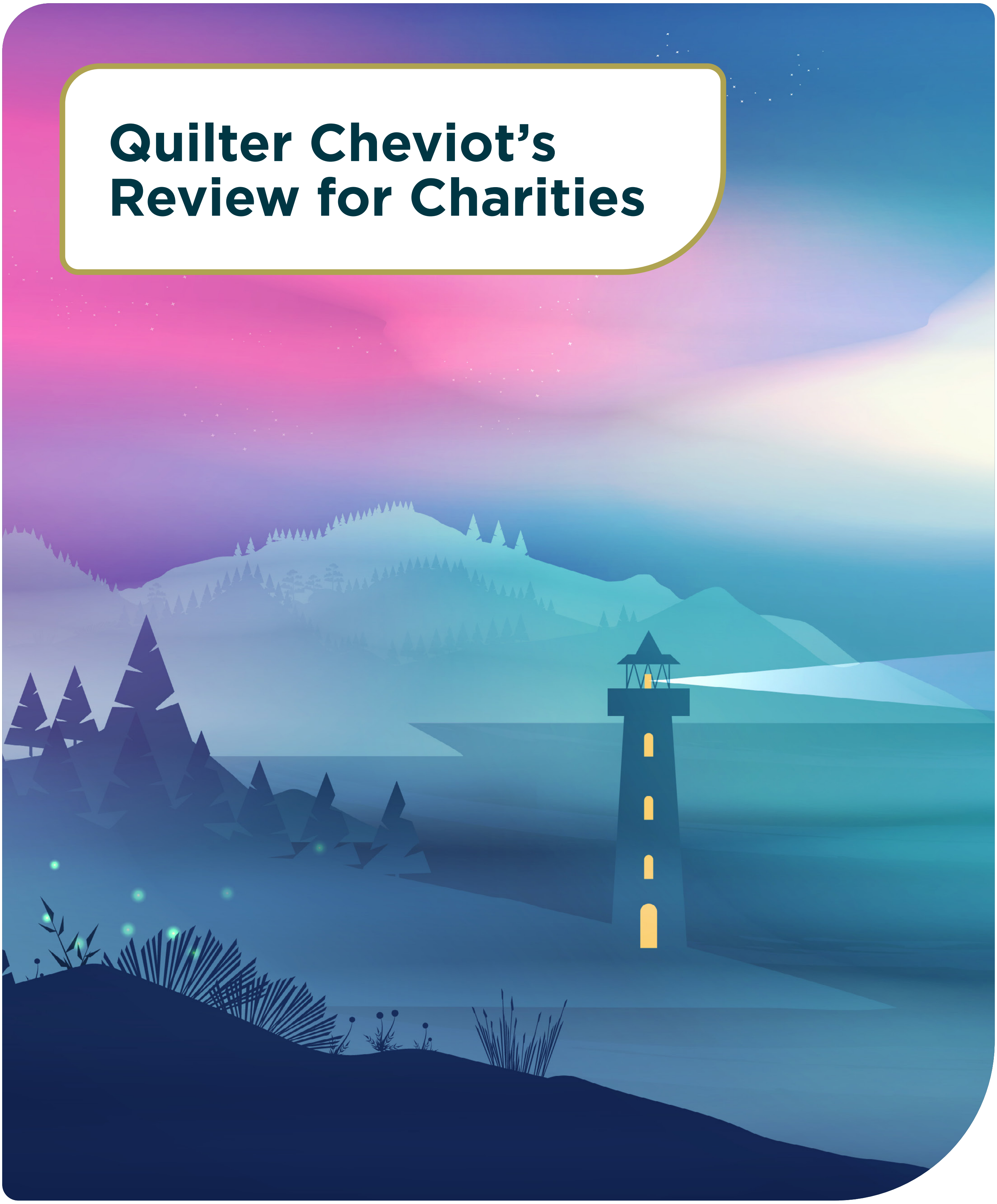
QUILTER CHEVIOT

Quilter Cheviot's Review for Charities



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Winter/Spring 2024

QUILTER CHEVIOT

Introduction

Welcome to the first Review of the year. Once again, the informative contributions from our charity-sector specialists cover a diverse range of subject matter, all formatted using our new brand style. We hope you enjoy our new look.

Last time, I suggested we might expect more on Artificial Intelligence. So, you can imagine my delight to have Keith Collins – Principal Consultant from Adapta Consulting – sharing his insights on AI, and how it could revolutionise the charity sector.

Speaking of revolution, the quest for net zero remains a hot topic of discussion. Quilter Cheviot's very own Caroline Langley gives her personal thoughts on why investors should consider removing exposure to fossil fuels.

Looking to the future and subject to a General Election, current polling indicates that Labour could be in Government by the end of the year. In anticipation of change, Matt Whittaker, CEO of Pro Bono Economics, hosted a summit with the Labour front bench.

In partnership with Matt, we will explore how the sector's relationship with the Government may change under Labour. Come back next time to read our conclusions.

Enjoy reading the articles; we always appreciate and welcome your feedback, alongside thoughts on other areas that we might look to cover later this year.

William Reid
Head of Charities

To find out more about our specialist charity investment services, or to speak to a member of the charities team, contact us:

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RELENTLESS RESILIENCE:

how to survive in turbulent times

William Reid
Head of Charities
Quilter Cheviot

Florence and the Machine hit the music scene in 2009, with a cover version of 'You've got the love'. In the song, they lament that, 'Sometimes it seems that the going is just too rough, and things go wrong no matter what I do'. Fifteen years on, the going is rough and facing an uncertain future, leaving two words to play on the mind: relentless and resilience.

One a challenge. The other a state of mind. There is a danger in the current wave of relentless and depressing headlines that we lose sight of the strategic risks we face, which in turn threatens the long-term survival of the organisation.

Last November we finally had news to cheer. The wave of rising interest rates across the UK, United States and Europe appeared to have peaked and inflation — both headline and core — had rolled over, declining faster than expected. Investment markets rallied, then came the fabled December 'Santa rally', accompanied by the first 'normal' Christmas period, post-pandemic.

Roll forward to January and the inevitable hangover. Markets softened as doubts rose over whether pre-Christmas forecasts of fast declining interest rates and inflation had been over-optimistic; perhaps formulated after one eggnog too many.

> *"There is a danger... we lose sight of the strategic risks we face."*

A return to the hamster wheel

The continuing war in Ukraine, the widening Middle East conflict, the Post Office scandal, the UK immigration policy, and the climate, complete with a fixation on the US Presidential primaries and the next UK general election. It was a return to the hamster wheel, as we tried to make sense of the world in which we live.

Interestingly, in a recent January survey of the UK public by Lord Ashcroft Polls, when asked to name an incident, event, or story that they had noticed about politics in the last few days, 23% of respondents could not cite any event. In fact, the only event significantly mentioned was the Post Office scandal (56%) followed by the bombing in Yemen (14%). Immigration, NHS strikes, Rwanda and the US Presidential election all scoring less than 6%.

> *“From a financial perspective, resilience should also include questioning reserves.”*

Inflation may be on course to be tamed. But as anyone doing the weekly shop will confirm, higher prices remain; they are just increasing more slowly, and budgets remain stretched. The ‘cost of living’ crisis is an acceptance of the relentless challenges we face financially — as individuals, organisations and as a country. Despite similar challenges, for many we have never felt so divided. Social media, ‘clickbait’, the rise of ‘doom-scrolling’ all act to reinforce this condition.

On course to conflict?

The drumbeat to war also grows louder, with a suggestion that we have moved from a post-war to pre-war world. On reflection, we have lived in a world of perma-conflict, if one takes account of Suez, Korea, Vietnam, the Falklands conflict, two Gulf wars and Afghanistan. This time the fight may be closer to home, with the Defence secretary recently highlighting domestic predictions of conflict within five years, and from some elements of NATO within three years. Views that most would prefer to read about in history books, rather than the daily newspaper.

So, how do we counter the relentless onslaught of negativity and doom? That requires resilience — both individually, as a team, and across the organisation — neatly encapsulated as the Venn diagram trinity of ‘task, team and individual’.

The recipe to resilience

There is no singular defined recipe in achieving and sustaining personal resilience. I suggest looking at inspirational figures such as Pete Read, the former elite rower and 3-time Olympic gold medallist, now using many of the skills learnt as an elite athlete to adapt to the physical and mental challenges to life post a spinal stroke.

Downtime is also central to avoiding burnout — you can only sustain ‘action stations’ for a short period before productivity and health suffer. Effective management and leadership of your team is also crucial in both inspiring and supporting the next layer of resilience.

At an organisational level, resilience should encompass not only the short-term challenges of tackling the ‘here and now’, but also the longer-term plan and purpose of your charity. But remember, plans need to be flexible and fluid to combat ever-evolving circumstances and situations.

From an objective perspective, what is our organisation trying to achieve? How and for whom? And what defines success? From a financial perspective, resilience should also include questioning reserves. Do we have any? What are they for? Are they a wasting asset? In what circumstances and scenarios might they be required?

Testing your organisation’s resilience is best captured through a comprehensive risk register, ideally split across operational (the here and now) and strategic (long term) considerations. In larger organisations, operational risks tend to be raised and managed by the Executive team, whilst strategic risks, affecting the future path of the organisation are considered by the trustees, in concert with the Executive.

The art is to capture only relevant risks, otherwise the register becomes unworkable and largely ignored. It should also allow for the quantification of the risk (there are many and various systems to equate likelihood with impact), whilst providing comfort on how these risks are managed should they manifest.

Check that the procedures outlined in the register both exist in practice and have been tested. Review and challenge your register on a frequent basis — new risks need to be challenged, noted or rejected — how many included artificial intelligence 18 months ago?

When reviewing the immediate outlook, it seems that Florence may have been premature to go on and sing that ‘the dog days are over’. However, armed with a resilient mindset, both individually and as an organisation, the challenges ahead, whilst perhaps daunting, are not insurmountable. Remember, ‘You’ve got the love’.

To find out more about our specialist charity investment services click **here**.

Artificial intelligence for good:

Revolutionising charities in the 2020s

Keith Collins
Principal Consultant
Adapta Consulting

In many ways, charities are no different from other organisations. They relate to people, they provide services, they have things they want to achieve, and — because it's just the way human beings communicate in the 2020s — they rely on technology and data to do that.

But in some ways, charities are different. Notwithstanding the ever-growing recognition of corporate social responsibility (which often manifests itself in terms of ESG — environmental, social and governance — policies and reporting), and the growing prominence of 'profit with purpose' (so prominently shown by the popularity of 'B Corporations' and the like), the primary duty of a commercial organisation is to deliver a return on investment for its owners.

Non profits, however, operate within a different context. Income is important — indeed, crucial — but it's not the organisation's raison d'être: it is a means to an end. With a broader set of stakeholders to satisfy, sky-high expectations around standards and principles, and all of the transparency and regulation, non profits — if they are to be successful in engaging people, raising funds and delivering their mission — are increasingly needing to demonstrate that they are exemplars of good practice in terms of what they do, how they do it, how they engage with people, and how they deploy technology.

Innovations in Artificial Intelligence (AI) have the potential to impact/benefit charities as much as any other area of the modern society and economy, and will test this dynamic even further.

> *"The potential of what the Internet is going to do to society, both good and bad, is unimaginable"*
> David Bowie, 1999

In 1999, David Bowie told Jeremy Paxman that "The potential of what the Internet is going to do to society, both good and bad, is unimaginable". Jeremy Paxman didn't believe that a rock star (albeit the biggest rock star in the world) was best placed to make this prediction. But Bowie — perhaps unsurprisingly given his wider career achievements — was spot on. If he were still alive today, would he make a similar prediction about AI?

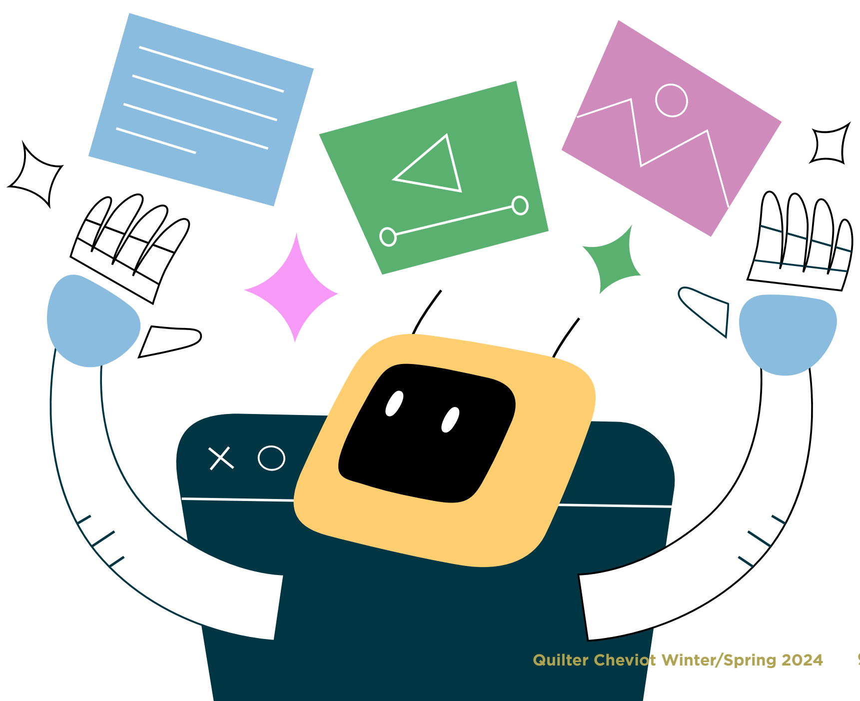
Everyone else seems to be doing just that!

For charities, there do appear to be a number of 'use cases' emerging for AI. That is, ways in which a charity might make good use of the various technologies which, together, make up the 'AI' family. Some examples include:

- The use of large-language models (such as ChatGPT) to help create content — words, images, video and support fundraising and marketing campaigns.
- The use of machine learning to hyper-automate and personalise fundraising and marketing campaigns in real time.
- The use of AI automation tools (think chatbots et al.) to help provide charity beneficiaries with a speedier service, or even to enable charities to provide some services 24/7/365 — with more urgent, sensitive or complex cases perhaps being triaged to a human being.

Looking ahead — and perhaps into the related realm of virtual and augmented reality (VR/AR) — non profits may offer the ability for donors to have a near real-life experience of the project their donation is funding, without having to go to a conflict zone or a tiger preservation project (for example). Perhaps the future of a consumer-tech world where smart glasses have superseded the smartphone as the personal device of choice for engaging with the internet.

However, we're still very much in the early days of AI; most of us don't really yet fully appreciate how it might be used, let alone how it could or ought to be.



> *"How might a donor feel about a machine deciding they should be 'upgraded' to a major donor?"*

The technology required to deliver these 'use cases' is — in some cases — already at your disposal; many popular products from the likes of Microsoft, Salesforce, Google and Hubspot are already becoming infused with AI capabilities. So, providing that your charity continues to invest in technology, then these capabilities will be coming to you soon.

But how do you start the process of getting to grips with the whole topic of AI as it relates to your organisation?

Perhaps the first thing to do is to really think about how AI could benefit your organisation, your beneficiaries, and other stakeholders. What are your 'use cases' for AI, and how could they be supported or delivered by the application of AI capabilities such as machine learning, large language models, etc.

Having established your use cases and identified how AI might support them, you might then want to turn to questions around your existing information estate. Whilst some applications of AI would benefit from better structured data, some might actually help you derive better value from that data without the pain of restructuring it! With some machine-learning driven AI use cases, your own data might be less vital to these use cases than data wrangled from external or big data sources.

However, paying attention to your information (your data, content etc.) — and understanding how it needs improving and who to involve in that process — is likely to be a valuable exercise even for those organisations nowhere near ready to explore the opportunities that AI may bring.

The third thing to consider might be the whole ethical concern around AI. We don't have space in this article to explore the wider issues around AI, and whether the predictions in Terminator are still going to happen (this, by the way, supposedly took place in the film on 29 August 1997!). However, we can explore some of the other AI use cases — and whether they fit with the ethics expected of the non-profit sector. Might some be perceived by some charity stakeholders as having undertones (or overtones) of Orwellian dystopias? Or will the new, younger generation of charity stakeholders happily engage with the digital personas charities create for themselves through AI?

For instance, how might a donor feel about a machine deciding they should be 'upgraded' to a major donor? (assuming that the donor can actually tell!). Do we really want the personal touch of cheerful charity staff or volunteers being displaced by automation?

Maybe, if it provides stakeholders with a better experience and/or helps the charity fulfil their mission better, the answer should be 'Yes' — let's not forget that AI has the potential for good, as well as offering some risks.

Perhaps this buzz around AI will also mean that charities start to become more aware of the ever changing digital landscape and its likely impact on wider social behaviours. Will people even use search in five years time as they do today? Will people visit charity websites like they do today in five years time? Do you want to try and get ahead of these issues or wait and see?

You'd better hurry; the clock is ticking. Just hopefully not towards Judgment Day.

(None of this article was written using ChatGPT or any other similar tool.)

For further information about Adapta Consulting click **here**.

Take the bull by the horns

Helen Simmons
Chief Executive
St Christopher's Hospice

It can be hard to admit and respond to the realisation that there is a problem with your trustee board or one of your governance committees. That it may have gone astray, is no longer giving the sort of highly supportive, yet highly challenging scrutiny that the charity needs. That it may have rogue elements that are playing to their own agenda or have drifted from their purpose into what they want to do, rather than what the charity needs. There may be a requirement for an overhaul and frequently for a change of membership (even sometimes for a new lead) to bring new skills into the mix.

Over the last 25 years I've seen charities handle their governance issues in broadly four different ways:

i) Do nothing — trusting that it will magically sort itself out

ii) Make small changes in a piecemeal fashion (e.g. wait for a difficult board or committee members' terms of office to expire)

iii) Use politics and complex plots to make change happen sooner

iv) Enlist external experts to give an arm's length review of things, to diagnose ailments and prescribe solutions.

Which is most likely to work? and which feels right?

Taking the first option, it's all too easy to 'do nothing' and start awkwardly working around the committee instead of through it, rather than fixing it. At best this is wasting a lot of people's time and at worst it's pretty insulting to the members, who genuinely may not realise how out of sync they have become and are therefore not given the opportunity to do the right thing, if it's not tactfully spelled out to them. Please note: many charities will do this for peace of mind and a quiet life, or even simply trying to be kind.

On the second option — I've known many a senior executive to have hunted out 'terms of office' for a solution to an outdated board or committee, rather than tackling the core issue head on. 'If we just wait another 18 months, X, will have to step down and then we can bring in Y and really start to progress...' The obvious problem with this is the opportunity cost for the charity during that period. Many charities will do this, wanting to show 'respect and courtesy' for volunteers' time given. Whilst this is a noble sentiment, it puts the needs of beneficiaries in second place to volunteers, something again that many charities will prefer to do.

On the third option — politics, and scheming is one of the most common approaches I've seen — which would probably shock those that have not worked long in the charity sector but not those who've been in it for years. We can probably all think of a few grand masters of this approach (maybe we are all thinking of the same people). There is huge potential for this method to go wrong and even when it works, it can leave a bad taste in the mouth of those who may have felt drawn into it in some way. A real concern with this approach is that it rarely aligns with the charity's values, and if the values aren't in operation at the top you can bet they're not at the bottom either; it breeds an unhealthy culture that middle managers feel they need to replicate in order to progress.

> *"At best this is wasting a lot of people's time and at worst it's pretty insulting to the members"*

So, we come to the fourth option — to get some external, unbiased input with a review. To take the time and space to collaboratively consider what's needed for the future and ultimately what changes will need to be made. To try to bring the volunteers with you in the decision making. This may cause some members to step down outside of terms of office and welcome (possibly even seeking out) more relevant new members (if that is part of the issue). At the very least it will re-establish the purpose of the board or committee in clear terms and re-focus minds. It may not go without a hitch but why not take the bull by the horns? I should say that you can of course attempt this without an external neutral party. For small issues that can be effective, but with larger issues there is wisdom in using facilitation to help avoid unnecessary breakdown in relationships.

I've been through a number of governance reviews over the years, and I cannot remember any of them failing to move the charity forward. They put beneficiaries first, they should be conducted in alignment with organisational values and, with some investment in time up front, will ultimately save wasting the organisation and volunteers' precious time in the future.

Sometimes chairs of boards or chairs of committees and CEOs need to be brave and put their head above the parapet, knowing that they may have to accept some debris when the dust settles. However, getting the best result for the beneficiaries is ultimately what it's all about.

For further information about
St Christopher's Hospice click **here.**

QUILTER
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Educational programme for charities

At Quilter Cheviot, we offer a variety of events throughout the year, covering a wide range of topics in various formats. Whether virtual or in-person, in London or across our regional offices, we strive to provide valuable insights.

Our events, specifically tailored for senior management and trustees, address topical issues impacting the charity sector.

To stay informed about our upcoming events, please register your interest below.

Keep me informed

Following the Church of England's lead:

Is now the time to embrace investing for a carbon constrained future?

Caroline Langley
Deputy Fund Manager
of the Climate Assets Funds
Quilter Cheviot

Caroline Langley, Deputy Fund Manager of the Quilter Cheviot Climate Assets Funds, gives her take on why investors should consider removing exposure to fossil fuels, in the quest for net zero.

The latest update to CC14 informs trustees to act in the best interests of the charity. With a declared positive charitable objective, charitable organisations have often led the charge towards sustainability. Many are identifying and implementing a considered approach to climate change concerns.

This increasingly means considering the exclusion of fossil fuels from their investment portfolios. Charity trustees are considering their organisation's role in the path to net zero and how their charity should best act, as for many 'knowing but not doing' creates an uncomfortable tension.

Diligent charity trustees and staff must also walk the tightrope between 'going under' with complexity and eco-anxiety whilst avoiding a U-turn and falling into business-as-usual denial. This can be a risk with an issue like climate change, which can feel too big and too ethereal to tackle.

“Put simply, the world does not need one person recycling perfectly, it needs billions of people to recycle enough!”

Trustees need narratives to engage themselves and others, as well as actionable goals, and to give up the myth of perfection. Put simply, the world does not need one person recycling perfectly, it needs billions of people to recycle enough! Sadly, it has become a sport to pick holes in well-meaning action, but I believe it is better to take two steps forward and one back, than inertia.

To avoid the worst climate impacts, we have a global goal to reduce carbon emissions and ultimately reach net zero. This will be achieved when all emissions released by human activities are counterbalanced by removing carbon from the atmosphere. The latest science suggests that limiting warming to 1.5°C depends on CO_2 emissions reaching net zero between 2050 and 2060. It follows that the sooner net zero is reached, the more likely we are to limit extreme temperature rises and minimise the climate impact that is now so broadly forecast.

Fossil fuels are the most high-profile topic when considering global warming, and for good reason. With approximately 65% of all greenhouse gas emissions released when burning fossil fuels, it is at the core of the global challenge. In June last year, the Church of England attempted to kick start ‘nudge economics’ in the charitable sector. The Church Commissioners for England — which manages the Church of England’s £10.3bn endowment fund — communicated that it would exclude all remaining oil and gas majors from its portfolio, and will exclude all other companies primarily engaged in the exploration, production and refining of oil or gas, unless they are in genuine alignment with a 1.5°C pathway, by the end of last year.

Donors are increasingly interested in how their funds are invested and this sort of divestment by Charities is both clear and meaningful — there is a separate debate, for another day, on the alternative option of investor engagement. Bill Gates articulates the reasoning well in his book ‘How to Avoid a Climate Disaster’: “I don’t want to profit if their stock prices go up because we don’t develop zero-carbon alternatives. I’d feel bad if I benefited from a delay in getting to zero. So in 2019, I divested my direct holdings in oil and gas companies, as did the trust that manages the Gates Foundation’s endowment.”

I believe that the traditional investment status quo is inconsistent with climate and sustainability facts. Take for example, a widely used performance comparator like the MSCI PIMFA Private Investor Balanced index and calculate the implied portfolio temperature in 2050. We estimated this to stand at 3°C, double the 1.5°C needed. In other words, investing in a traditional mixed asset mandate without any fossil fuel restrictions or a positive thematic overlay has the potential to contribute to a 3°C world.

In November, the annual ‘Emissions Gap Report 2023’ from the United Nations was very much in line with our estimate. Antonio Guterres, UN Secretary General, said when discussing the report’s findings “the emissions gap is more like an emissions canyon. Present trends are racing our planet down a dead-end 3°C temperature rise”.

So as your charity works out what it can do to achieve net zero at an organisational level, do not neglect considering how your portfolio is invested. CC14 instructs trustees to do what is in the best interests of the charity. This may mean considering the implications of adopting a policy of engagement or indeed could include the exclusion of fossil fuel investment. Depending on the specifics of your charity, this may help you connect with donors who believe that the charity’s values are aligned with such an approach.

Positive opportunities to invest in green technology are broad. Our Climate Assets strategy invests in solution providers across the themes of Clean Energy, Food, Health, Resource Efficiency and Water and excludes companies involved in the extraction, exploration, and distribution of oil & gas.

Excluding fossil fuels has not been a performance issue for the strategy, which has outperformed its market comparator in 9 of the last 12 years. The strategy also has a revenue alignment to the UN Sustainable Development Goals of over 75% at a portfolio level (independently assessed) and although not specifically targeting a temperature level at present, has an estimated portfolio temperature alignment of 1.7°C.

Many reading this will remember when seatbelts were not mandatory and people were smoking in planes. Things do change and change can be good. I also believe that it is less stressful to embrace the new low carbon economy than live with the tensions of knowing one thing and doing another.

Whilst making sure your charity’s investments are aligned with its charitable objectives, I would consider how these can help the organisation, overall, on its journey to net zero. If not, I suggest, that these funds destined for very long-term charitable purposes may not be fit for a carbon constrained world.

I often try to imagine what the world would be like now if we had made the change away from fossil fuel 50 years ago, embracing the tools and knowledge we possess today.

For more information on the Climate Assets range of funds visit **here** or contact the team about these and segregated mandates **here**.

Charities&Change

The Charities (Regulation and Administration) (Scotland) Act 2023

Kenneth Pinkerton
Partner - Charities
& Third Sector
Brodies LLP Solicitors

People are our most important asset.

People who take on the role of charity trustees are undoubtedly one of the third sector's most valuable assets. This article considers how they will be affected by the Charities (Regulation and Administration) (Scotland) Act 2023.

How did we get here?

By any stretch of the imagination the journey to the passing of the Charities (Regulation and Administration) (Scotland) Act 2023 ("2023 Act") has been a long and winding road. It began back in March 2018 when the Scottish Charity Regulator ("OSCR") published "A Proposal for Modernisation of the Charities and Trustee Investment (Scotland) Act 2005". Following publication of that proposal there then followed a Scottish Government consultation in 2019, further "specific questions" from the Scottish Government on how the proposals could be implemented in 2021, and a further "mini" consultation by the Scottish Government in February 2021.

Finally, in November 2022 the Charities (Regulation and Administration) (Scotland) Bill was published which ultimately received royal assent and became an Act on 9 August 2023 — a journey of over five years which arguably merely produced the changes, at least more or less, requested by OSCR in 2018. Notwithstanding the length of the journey, it is fair to say that the aim of the bill to increase transparency and accountability for charities has been achieved.

What changes will most affect charity trustees?

The changes in the 2023 Act that most affect charity trustees can broadly be grouped into two categories:

1. Information that OSCR publishes and holds about charity trustees.
2. The disqualification of charity trustees.

1. Information that OSCR publishes and holds about charity trustees

The inclusion of charity trustee names in the Scottish Charity Register ("the Register")

The 2023 Act stipulates that each charity's entry in the register must include the names of each of its charity trustees. At present the law does not require OSCR to publish on the register any details regarding the identity of the charity trustees of a charity. The only exception is where there is no principal office of the charity — if that is the case, the name and address of one of the charity trustees is published.

A charity or any of its charity trustees will be able to apply to OSCR for dispensation from publication if the publication is likely to jeopardise the safety or security of a person or premises. This mirrors the current provisions for excluding publication of a charity's address, be whether it a principal office or trustee address on the register.

If OSCR refuses the dispensation the applicant can seek for a review of that decision. OSCR will also be able to grant dispensation itself on safety or security grounds either to a particular charity or class of charities, for example women's refuge charities.

Record of persons removed from office

OSCR must also keep a record of persons who have been removed by order of the Court of Session from the "management or control" of any body, which will include not only charity trustees but also senior managers of a charity. This record will not be available publicly but it will be possible to search for an individual's name to discover whether they are on the register. That will help when charities are carrying out their due diligence on individuals wishing to join the charity whether in a senior position or as a charity trustee.

Schedule of Charity Trustees

In addition to the requirement to include the names of charity trustees on the register, the Act also states that OSCR must keep an "off the register" schedule of charity trustees. This must contain a separate entry for each charity trustee with such information as OSCR considers appropriate. We await notification on what "such information" is.

2. Automatic disqualification of charity trustees

Existing provisions

The existing provisions regarding the automatic disqualification of charity trustees are contained in the 2005 Act. These include, for example, disqualification for convictions of an offence involving dishonesty, undischarged bankrupts or individuals disqualified from being a company director.

It was recognised that these provisions fell short of those in England and Wales and, in line with the aim of the 2023 Act, these have been augmented.

The 2023 Act provisions

The 2023 Act not only expands the range of criminal offences for which conviction results in disqualification but also extends the disqualification provisions to persons holding office of employment in a charity with senior management functions. Those senior management functions include a person not accountable to anyone, or only accountable to charity trustees (for example, chief executive office or an executive director). It also includes a role involving control over money is not accountable to anyone other than another person with a senior management function (for example, a finance director or chief finance officer).

Examples of the new provisions include certain offences under the Terrorism Act 2000, the counter Terrorism Act 2008; a money laundering offence within the meaning of section 415 of the Proceeds of Crime Act 2002 and certain offences under the Bribery Act 2010. In addition, the offences of aiding, abetting, counselling, procuring, or inciting the commission of the offence or attempting or conspiring to commit the offence are included.

When will change happen?

The Scottish Government has promised a “two-phased” approach to commencement. In Spring 2024 what are described as “straightforward provisions that required short lead in time with minimal impact on charities and provisions” will come into force. It is expected that these will include other measures in the 2023 Act including the extension of OSCR’s powers, changes regarding charities accounts, inquiries and whether a charity has connection to Scotland.

The second phase is expected in Summer 2025 and includes “provisions that require system changes and more substantial communications work by OSCR”. These are likely to include those described in this article, the schedule of trustees and the extension of automatic disqualification.

What should charities do now?

Whilst it is not expected that the forthcoming changes will cause any significant challenges, “we do not know what we do not know”. For that reason, it is recommended that at an early stage charities engage with charity trustees and senior managers on the intended changes to ensure they are comfortable with them. As said at the outset, charity trustees are one of the sector’s most important assets. We should continue to support them in any way we can, including keeping them abreast of changes to legislation.

For further information about Brodies charities and third sector services **click here** (Charity Lawyers/Solicitors Scotland | Brodies LLP).

Shining a light

Dr Clare Mills
Director of Policy and Communications, Charity Finance Group (CFG) with contributions from Richard Sagar and Emma Abbott, CFG

2023 was another tough year. But if there's one thing the charity sector does better than any other, it's finding the bright spots and working together for a better future.

Charities and purpose-led organisations have faced a succession of crises these past four years. Costs have climbed and, for many, income has fallen whilst demand has increased.

The sector has not only braced itself against the cost-of-living crisis and the long tail of the pandemic, it is still adapting to a 'new norm' characterised by uncertainty and volatility.

Many of the charity leaders Charity Finance Group (CFG) works alongside have told us that the past year has been among the most difficult. But there are bright spots.

Throughout this time, we've seen the very best of the sector – its flexibility, creativity, and resilience. That's on top of its continued sense of purpose, compassion, and a willingness to collaborate to find solutions.

> *Without additional funding, charities will be forced to scale back vital services or close altogether"*

Feeling the pinch

The results of the Voluntary, Community and Social Enterprise (VCSE) barometer surveys conducted in 2023 show that almost 40% of organisations saw their finances decline since the middle of the year[1]. High inflation eroded the value of income and, as ever, organisations have to do much more with a lot less. Of course, this isn't isolated to the charity sector.

In November 2023, the third sector was dismayed that the government had no plans for additional spending on public services. With budgets remaining the same in cash terms, higher inflation continues to eat into the value of public service budgets. This means cuts in real terms to departmental budgets of roughly £19bn by 2028[2]. There's very real fear that more local authorities will issue S.114 (bankruptcy) notices.

Charities will be affected. Those that rely on local authority contracts are unlikely to see them updated in line with inflation. Many charities are left with little choice but to dip into their already diminished reserves to subsidise government contracts.

The rise of the National Living Wage in April 2024 will undoubtedly benefit many people on lower incomes — this can only be a good thing. Charities will factor in the increase into operating costs, but it will disproportionately hit some harder than others, such as those in social care. Without additional funding, charities will be forced to scale back vital services or close altogether.[3]

Along with a stronger political will to support the third sector, the sector needs to see continued improvement in the wider economy continue. A corresponding bounce back in charity finances will, however, take time.

Against this backdrop, it can feel hard to see the bright spots. But we can find them if we take time to scan the horizon...

Shaping tomorrow's world

You won't have missed the prominence that generative AI has had in conversations, publications, and conferences. This combination of faster digital processing, swathes of data and machine learning has huge potential to change the world of work — and all other aspects of life — which can feel scary!

There are always risks in adopting new technologies and tools. But the way we respond to change can help us overcome feelings of fear and confusion — and create new opportunities.

Remember when we all first engaged with social media platforms? What began as a daunting first step is now second nature to many. And do we need to understand the principles of the internal combustion engine to get behind the wheel of a car?

At CFG, we started by asking 'why?' That led us to 'what?'. Only when we've answered those questions about the role of AI in our organisation, and the benefits and risks it brings, can we start to think about 'how' [3].

Charities are driven by a desire to do all they can for their communities and beneficiaries. It can be easy to forget that this unrelenting sense of purpose drives us to adapt quickly and use new tools and technologies for our advantage.

One sector that CFG works closely with — and that is also experiencing huge change — is banking. The provision of banking services to charities and social purpose organisations has been viewed as a 'social good' in the past, but the pace of change has disrupted this notion.

For smaller charities, difficulties around bank charges and branch access have been of particular interest. For all sized charities, more widespread concerns include de-risking, effective communication, opening and operating accounts. Along with other charity infrastructure bodies, CFG has been working with UK Finance — the trade association for the banks — to help understand the issues and develop improvements in practice.

In November 2023, charity regulators from across the UK took the unprecedented step of writing to the banks to ask for the pace of this work to accelerate, and we are grateful for this additional push for progress. Watch this space!

As 2024 unfolds, we'll keep an eye on all that impacts charity finance and the wider sector, shining a light, creating bright spots. In March, the Chancellor will unveil the spring budget and in the coming months we'll undoubtedly see new regulation, legislation, and guidance — as well as a different government!

By taking time to think about what makes us resilient — our willingness to share, collaborate, learn and adapt — we stand ready to face (and shape) the future.

For further information about CFG click **here**.

[1] Download.ashx (probonoeconomics.com)
[2] CP 944 – Office for Budget Responsibility – Economic and fiscal outlook – November 2023 (obr.uk)
[3] https://audioboom.com/posts/8433394-talking-about-ai-and-the-charitable-sector

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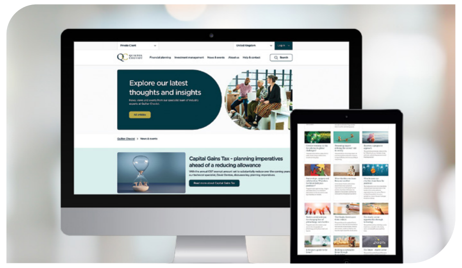

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Important information

Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future return.

Approver Quilter Cheviot, 26 February

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