



**CHARITY COMMISSION**  
FOR ENGLAND AND WALES

# **Charity Commission**

# **Annual Report and Accounts**

2015-16



Charity Commission

Annual Report and Accounts 2015-16  
(For the year ended 31 March 2016)

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# Contents

- 1 Introduction
- 2 Who we are and what we do
- 3 Performance report
- 4 Legal annex
- 5 Financial performance
- 6 Accountability report
- 7 Resource accounts

## 1

# Introduction from the Chairman and Chief Executive

Charity and philanthropy distinguish our country. Our charities are some of the most respected and effective in the world. From caring for the sick, to teaching music, to undertaking cutting edge research, our charities make this nation a better place.



That remains as true as ever, and yet there can be no doubt that this has been a bruising year for the charity sector. Public trust and confidence in charities has dropped, for the first time in over ten years, as the actions of a few chimed with a wider public concern that some charities were not living their values. The message is clear: collective action is needed.

Despite the often very best intentions of trustees, weak governance persists in places. We believe strong governance is the key to restoring public trust.

Many charities are beginning to address these concerns and are seeking to improve their practices. Some have gone further and made bold changes, reaching out to their critics. These are often difficult decisions which can involve the loss of income in the short term, and require real leadership.

We have over the last year highlighted weak governance in charities and promoted the need for stronger governance, clearer strategic direction, and greater trustee oversight - particularly of financial resilience and fundraising - in charities of all sizes.

In this context, the role of the Charity Commission as regulator is more important than ever.

This report sets out how we have delivered this year against our strategy. We have described the significant updates we have made to guidance for trustees and some of our operational work, from registering charities, to giving permissions, to serious investigations, as well as our work in the Tribunal and the courts.

We are pleased to report on a year in which Parliament granted the Commission new powers to help us regulate more effectively, modernising our regulatory toolkit and closing some loopholes in the legal framework. The Charities (Protection and Social Investment) Act received cross party support and was given Royal Assent in April. We take these additional responsibilities very seriously; as with all our powers, we will be accountable to Parliament and the courts for their implementation.

This report also explains our continuing transformation into a more efficient and effective regulator, symbolised by our new logo which is on the cover of this Annual Report. We are digitising our processes and services, to enable us to streamline low risk work and focus our resources on areas of higher risk. This is essential because of the constraint on our resources. We are constantly seeking to do more with less and we believe that we are a more productive regulator as a result.

Strengthening charity governance and enabling charity trustees to fulfill their duties continues to be at the heart of our work. We describe in this report some of the significant changes we have made to guidance for trustees. We started this year by revising our online Essential trustee guidance. Effective, capable trustee boards will

always be the first and most important line of defence against any problem in charity and this is where the regulator and the sector must and will continue to work together.

Charities have always softened the state and at their best they provide a human response to human needs. This must remain always a priority for us all. In his 400th anniversary year, we call to mind the words of William Shakespeare: *“God bless thee; and put meekness in thy mind, love, charity, obedience, and true duty!”*



**William Shawcross**  
Chairman  
Charity Commission



**Paula Sussex**  
Chief Executive  
Charity Commission

## 2

# Who we are and what we do

## 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. We are responsible for deciding if organisations are charitable and should be added to and in some cases removed from the Register of charities and for maintaining that Register. We operate within a clear legal framework and follow published policies and procedures to ensure that we are proportionate in our approach.

At 31 March 2016, there were 165,334 charities (and 16,455 subsidiaries) on the Register and we regulated £70.93 billion charity income last year.

### 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 registrar and regulator of charities in England and Wales. We promote public trust and confidence in charities, and thereby encourage charitable giving and endeavour in all its forms.

### Our regulatory approach

Our regulatory approach is designed to meet the expectations of us set out in the Charities Act 2011. We concentrate on promoting compliance by charity trustees with their legal obligations, holding charities accountable, and upholding the definition of charity under charity law, and so promote public trust and confidence in charity.

We will not tolerate the misuse of any charity or its funds for unlawful or improper purposes. We will be alert in particular to fraud, terrorist abuse and lack of safeguarding of vulnerable beneficiaries and will take decisive action where necessary. We will be bold in using our statutory powers in serious cases.

A significant proportion of our work is dedicated to meet our statutory objective to promote the effective use of charitable resources. We do this by using our powers to give permission to trustees where necessary to take action. And also through our advice and guidance so that trustees understand what they need to do to run their charity effectively.

Our **mission, statement of regulatory approach, and values** can be found on GOV.UK.

## Our quasi-judicial functions

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

Where the law is dated, unclear or imprecise, and unless we feel bound by strict precedent, we approach the case the 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.

Our decisions can be appealed to the First-tier Tribunal (Charity) and some of our decisions may also be open to challenge in the High Court. These include decisions on charitable status and registration, the use of our powers to give formal advice and permissions, and in our compliance work dealing with investigations and taking remedial action against defaulting trustees and others.

This year we have been involved in litigation in the First-tier Tribunal (Charity), the Upper Tribunal, the High Court and the Court of Appeal. This includes cases brought against our decisions, but also cases brought proactively by us to recover money lost to charity or to seek the Court's directions to resolve complex or contentious issues affecting a charity. Case reports are included in this report as well as in the Legal annex.

## Our strategic priorities to 2018

Our strategy assures charities and the public that we will be robust in our approach to abuse and mismanagement. 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:

- 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).

You can read about our key risks in our Annual Governance Statement, page 46.

## Our funding

In 2015-16 we were voted £23.2 million revenue and £2.2 million capital funding from HM Treasury. This included £3.3 million of one-off 'invest-to-save' funding to invest in new digital and risk systems, out of the £8 million granted by HM Treasury in 2014.

## Our performance

We report on our progress against our strategic objectives and against the NAO's recommendations under 'Performance report' (see page 10).

## How we work

We had an average of 285 staff (permanent full time equivalent) in 2015-16 over the year, structured in five directorates:

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

These directorates are led by our Chief Executive.

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

## What we do

### Registration: deciding whether 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 restricting charity registration to only those organisations that properly pass the legal tests for a charity and are required to register. 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.

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

Our decision to register or not register an organisation as a charity or to remove the 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 assists charities, the Commission and the wider public to understand the interpretation and development of the law.

### 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. For reasons of accountability and transparency, we require charities to provide key public information and to do so promptly. The online Register search displays key information about charities' purposes and operations. We highlight on the Register charities which fail to comply with basic information requirements, such as filing annual returns and accounts, charities with qualified accounts, and charities that are subject to a statutory inquiry.

## Expert regulator: our international work

Around 14,000 charities registered with us work internationally (outside the UK) and they have incomes of some £16.6 billion. The UK public has a direct stake in the good management and effective regulation of these charities.

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 issues around due diligence
  - moving money safely and verifying and accounting for funds, working with umbrella bodies to disseminate guidance and recommendations
  - taking action to both prevent abuse and - in some instances in collaboration with partners - where there is evidence of abuse - for example, half 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
- support other regulatory bodies in other jurisdictions to establish effective regulatory frameworks, regulate fairly, transparently and effectively through sharing best-practice, experience and operational tools and procedures that are unique to us
- in parallel, support the development of healthy and accountable charity sectors worldwide

Some of this work is part-funded by the Foreign and Commonwealth Office.

### The Financial Action Task Force (FATF)

The FATF is an inter-governmental body that sets the standards for fighting threats to international financial systems, including money laundering and terrorist financing. It has developed a series of recommendations including Recommendation 8 (R8) for the charitable (not for profit) sector. The Commission is the UK Government's Expert Lead at FATF on R8.

Last year FATF held a public consultation on its Interpretative Note (IN) to R8. We organised a roundtable with representatives from the sector to seek views and feedback to the proposed amendments to the IN to feed into FATF. The IN will be finalised in 2016.

### Work in China

In 2015 we were invited to contribute to policy discussions in China on Charity Law and the draft Foreign NGO Law, which were out to public consultation. Our experts visited Shanghai, Nanjing, and Beijing, supported and funded by the FCO to assist in the development of effective regulatory law, to take part in public debates, present the Commission's model of regulation, explain the government's response to recent issues in the self-regulation of fundraising, and to contribute to discussions of China's One Belt One Road Policy.

### Inward visits

We hosted inward visits by ministers, regulators and senior civil servants from China, Bahrain, Morocco, Japan, Hong Kong and Qatar.

## **Work with International, UK and European Partners**

We 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.

This year the International Charity Regulators Forum met in Dublin and Belfast. Delegates attended from Australia, New Zealand, Singapore, Canada, Scotland, Ireland, Northern Ireland and England and Wales to discuss regulatory issues which affected their jurisdictions. In addition the European Regulatory Forum, a European informal network of regulatory authorities, met in Milan to discuss common regulatory issues.

## **Providing regulatory advice and guidance**

We expect all registered charities to comply with the law and our published regulatory guidance.

Our guidance explains the duties of trustees, and our regulatory expectations, in order to enable trustees to do this.

We provide regulatory advice where necessary. Most regulatory advice from us is now published online.

If a charity fails to follow our advice and guidance, this may be used as evidence for further regulatory action.

## **Giving permissions and consents**

Charities sometimes need permissions from us to do things such as selling property, paying trustees, changing objects or authorising large transactions, often to do with land. Work has started to make it more straightforward to get low risk permissions.

If there is another route to achieve the outcome the charity wants, the trustees should use this, rather than approaching us for permission. We can then concentrate on those cases which need our involvement. For any significant changes, we want trustees to consult with stakeholders before approaching us.

## **Dealing with problems in charities: engaging as a regulator**

We deal with problems in charities in a number of different ways depending on what the problem is and how serious it is. If we decide to engage, 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.

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.

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

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 to answer questions
- temporary protective powers which allow us to protect charity property for a temporary period while we continue investigating
- remedial powers which allow us to implement long term solutions to problems often identified by an inquiry

Where there are serious concerns of abuse in a charity, we may open a statutory inquiry under section 46 of the Charities Act 2011.

## **New powers in the Charities (Protection and Social Investment) Act 2016**

The passage of this Act is a significant landmark for us. The new powers granted to us will help us regulate more effectively and in line with public expectations.

The 2012 review of the 2006 Act by Lord Hodgson recommended that more offences should result in automatic disqualification. The new powers help close known loopholes in existing powers and reflect the powers used by other modern regulators

These powers include, for example, an official warning power and the power to disqualify individuals from trusteeship and senior management positions. They will help address the weaknesses in our existing powers.

Through much of the year we supported discussion of the Bill while it was debated in Parliament, providing support and information to parliamentarians and the government to ensure that the legislation was well understood and a strong case was made as to why these powers are necessary. The strong cross-party support this Bill received was an endorsement of our vital role. We will be communicating these changes to charities in 2016-17 as each aspect of the Act comes into force.

### **Monitoring charities**

Monitoring, which includes proactive work to anticipate problems, may include desk-based research, corresponding with or interviewing trustees, visiting the charity's premises and inspecting its books and records.

This may result in providing the charity's trustees with regulatory advice, and ensuring the advice has been followed; setting an Action Plan, opening a compliance case; or, in the most serious cases, a statutory inquiry. Monitoring also includes following up on concerns or questions raised during the registration process or in a previous regulatory case.

# 3

## Performance report

This section explains our progress against our four strategic priorities set out in our Strategic Plan published in 2015. It also looks at our KPIs and external performance indicators.

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

As we have recently seen, 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 will direct most of our resource for regulatory engagement with charities.

### Updated Risk framework, informed by better data

The Risk framework sets out our approach to regulation alongside the Statement of regulatory approach and our Strategic Plan. We updated the Risk framework this year to make it better reflect the Commission's more robust approach.

The new Risk framework is more concise. It sets out our priority risk areas: fraud and other financial abuse of charities; protecting children and vulnerable adults; misuse of a charity for terrorist purposes and other significant breaches of trust or non-compliance that affect public trust and confidence in charities.

We are making more use of data to prevent and detect abuse, and, with the Risk framework, this will help us focus our resources on the cases that need it most. Digital technologies will also help us by automating low-risk, low-impact activities.

### Faster and more effective investigations

There were 135 live inquiries at the end of this year (2014-15: 132; 2013-14: 76).

However, we opened 53 new inquiries this year, (2014-15: 103). This decrease was primarily due to fewer double defaulter cases being opened, as well as more cases being dealt with as compliance cases, without opening an inquiry. We are also intervening earlier through proactive compliance and inspections visits, resulting in Action Plans which are then actively monitored.

Our new cases are often complex and in the most serious cases, involve working with other agencies. They make decisions about the use of our powers increasingly complicated.

We have been using our powers across all the casework teams earlier in our cases, and more robustly, as we become more focussed on regulatory outcomes. Levels of use of powers remain broadly similar to last year - 1,073 (2014-15: 1,062).

We opened 1,327 (2014-15: 1,182) operational compliance cases and closed 1,309 (2014-15: 1,257); and published 25 case reports (2014-15: 29) to help trustees learn from them.

We issued 14 notices of our intention to remove people as trustees (2014-15: 4) and removed nine of them due to their poor conduct, (2014-15: 4), so that they are now permanently disqualified from acting in charities. We also appointed four new interim managers, a temporary and

protective step to manage a charity whether there has been misconduct or mismanagement or its property needs to be protected, taking the total number of interim managers managing charities at 31 March 2016 to 13.

We published 35 inquiry reports (2014-15: 39). To help other charities learn from our inquiries and to make charities accountable to donors, beneficiaries and the general public. These achieved significant national press coverage in 2015-16 and were used by Commission speakers in trustee training sessions. They were also sent to trustees in our quarterly newsletters.

Charities reported 2,117 serious incidents to us in 2015-16 (2014-15: 2,129).

Charities, trustees, and others affected by the use of our compliance powers, have a right to

appeal to a specialist tribunal, the First-tier Tribunal (Charity) or, in some cases, to apply for judicial review in the Administrative Court. We saw several complex cases come to trial during the year, which was a significant resource commitment for our investigations and legal teams and a challenge for the swift progression of these cases.

We have continued to be very successful in defending our investigations decisions in litigation. Of the nine Tribunal cases concluded this year on investigations, all were resolved in the Commission's favour. The number of challenges to our work remained relatively small compared to the number of investigative powers we use. This gives us confidence that our investigations work is targeted and proportionate, and that we are explaining the reasons for using our powers effectively.

### Keeping Kids Company

When concerns were raised by three former employees in July 2015, we acted within 24 hours on allegations of financial mismanagement. On 20 August in light of public concerns we opened a formal statutory inquiry into whether issues raised about administration, governance and financial management were true, and to take wider lessons for other charities and trustees. At the time of writing, that inquiry is still under way. We have also given a written reply to the recommendations of the Public Administration and Constitutional Affairs Committee's inquiry into the collapse of Kids Company. Our response can be viewed on their website.

### Elections

We set up a rapid response team in the build-up to the General Election in 2015 to make sure we reacted quickly and consistently to complaints and queries about charities and political campaigning. From October 2014-May 2015 we had 57 queries about charities and political campaigning. Seventeen cases raised concerns about non-compliance.

### Fundraising

The fundraising issues which dominated most of the year gave us cause for significant concern. 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.

We gave evidence to the Public Administration and Constitutional Affairs Select Committee which fed into its report 'The 2015 Charity Fundraising Controversy'.

We also gave evidence to the Etherington Review of Fundraising Self-Regulation. The review made recommendations to reform and strengthen self-regulation. We support the new charity sector-funded fundraising regulator (set up in 2016) and have seconded a senior member of staff to help establish the new body and build a close working relationship between us.

We have published guidance (CC20) which 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

We may regulate a small number of fundraising cases. For example, in 2015-16 a small number of charities appeared to be established primarily as a fundraising business for the trustees and/or associates to be paid as fundraisers. They made very small grants so they could demonstrate that there was charitable activity but the real beneficiaries appeared to be the fundraisers and staff. They also produced accounts and submitted their annual return on time, which kept them below our radar. However, the percentage of actual charitable activity was very low. This is not acceptable and we removed three charities from the Register in 2015-16 and are pursuing more cases this year.

#### Case reports on abuse: Trustees disqualified for unspent conviction and charity closed

##### **GYSO Limited**

The charity registered in June 2014, following a successful campaign on social media, which raised awareness of prostate and testicular cancer.

**Why we got involved:** A media article stated that one of the trustees had been convicted of theft. Charity law disqualifies people who have an unspent conviction for a crime involving dishonesty from being a trustee.

**The action we took:** We requested that the trustee notify us about his conviction and received no response. We also wrote individually to their trustees. Two of the letters were returned to sender and we did not receive a reply from the third trustee. There was evidence that the charity was still active, although donation histories showed only a small amount of money raised. Companies House had a proposal to strike off the charitable company from its Register for not submitting legally required documents. We monitored the removal process and, once removed, immediately removed the charity from our Register.

**Impact of our involvement:** We removed the charity from our Register. We notified the two relevant charity donation platforms of the charity's dissolution.

### Safeguarding concerns resulted in an action plan for charity

#### Poverty Relief Charity

The charity's principal activities are the relief of poverty, the advancement of education and the advancement of the Christian religion in any part of the world. Each Christmas the charity runs a shoe box appeal, donors fill shoe boxes with gifts for families in need and the charity relies on the help of school children and young people to pack boxes at its premises.

**Why we got involved:** Concerns were raised with us about an individual thought to be a volunteer at the charity. We were told that the individual had breached restrictions placed on them following their conviction for sexual offences. This raised serious concerns about the trustees' oversight of the charity's activities and specifically, about the processes in place to protect children or vulnerable adults that came into contact with the charity.

**The action we took:** We contacted the charity to establish the details of the incident that led to the breach of the individual's ban from coming within a certain distance of schools, what steps trustees had taken since, and how the charity safeguards children and vulnerable people.

**Impact of our involvement:** We sent the charity an Action Plan, requiring trustees to address our very serious safeguarding concerns. The trustees cooperated with the Action Plan.

## Proactive action against the abuse of charities and follow-up

We work to anticipate, detect, prevent and deter problems from arising in charities. We use our Risk framework to proactively monitor and engage with charities identified as high risk or operating in high risk areas, to take preventative action, or to offer preventative advice and outreach.

Most of our monitoring casework is proactively generated based on risk factors, with particular focus on the Commission's key strategic priorities of fraud, financial crime, counter terrorism and extremism and safeguarding of vulnerable beneficiaries.

In 2015-16, we opened 424 monitoring cases and concluded 405 cases. We carried out 106 proactive inspection and compliance visits (2014-15: 116).

For example, we proactively engaged with a sample of charities that had identified themselves as having vulnerable beneficiaries to confirm they had appropriate safeguarding procedures in place. We identified that the majority of charities we contacted had safeguarding policies and DBS checks in place. Where charities did not have appropriate policies, they were provided with an Action Plan. We will check to ensure these charities make the required changes.

We also reviewed 377 sets of accounts as part of our monitoring activities which form part of the 986 sets of accounts looked at by our team of accountancy experts during the year.

We actively monitor newly registered charities where we have concerns that they may not function as stated at the time of application, engaging with 42 last year. This could be as a

result of concerns about low levels of charitable activity or about individuals involved in the charity. We also engage with newly registered charities operating in high risk areas internationally.

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

Our follow-up work this year included:

- checking that all charities which had been issued with an Action Plan had completed the required actions; there were 137 Action Plans
- engaging with a sample of charities that had previously reported serious incidents relating to fraud, financial crime or safeguarding, to seek assurances that they have since acted on advice we had given
- engaging with charities 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 are concerns about non-compliance

- taking action on referrals relating to the fraud database CIFAS

This year, to make our casework easier to understand, we published guidance about **what trustees can expect from us and what we expect from trustees**.

## Engaging effectively with other regulators and government agencies - better data sharing

We work with regulators and across government and as part of this we exchange information and referrals with HMRC, police and the National Crime Agency. In 2015, we developed our strategy to share information with more government agencies. This has led to a number of new agreements with agencies including the Information Commissioner's Office.

As a result of our strategy, information exchanges with other agencies increased to 2,332 times, (2014-15: 2,131); and the number of times we requested and were provided with information grew 36% to 922 (2014-15: 677).

### Case study: Joint working with the police

**Why we got involved:** Mr Adeel Ul-Haq was soliciting charitable donations via his Twitter account in support of 'humanitarian aid convoys' and other aid efforts to assist those affected by the crisis in Syria. The North East Counter Terrorism Unit (NE CTU) shared information with us which suggested those charitable funds, held personally by Mr Ul-Haq, were at risk.

**The action we took:** We took immediate action to protect charitable funds personally held by Mr Ul-Haq, freezing the bank account in which they were held and directing the bank to transfer those funds to a charity to assist those affected by the crisis. In September 2014 we removed him from his role as a charity trustee. He is now disqualified in law from being a charity trustee.

**Impact of our joint working with NE CTU:** We protected charitable funds and helped other charities to use them for the purpose that they were donated. In February 2016 Mr Ul-Haq was convicted of a terrorist financing offence of entering into a funding arrangement contrary to section 17 of the Terrorism Act 2000. He was also convicted of assisting others to commit an act of terrorism, contrary to section 5 of Terrorism Act 2006.

## Joint working with OFGEM

### Age UK

The charity aims to promote any charitable purposes for the benefit of older people. There is also a network of local Age UKs, which are separately registered, and other legally separate organisations and subsidiary companies which offer commercial products and services.

**Why we got involved:** Media reports in February 2016 suggested the charity received £6 million a year from energy supplier E.ON to promote the Age UK two-year energy tariff to older people and that tariff was more expensive than other tariffs available.

**The action we took:** We worked with the energy regulator Ofgem. We opened a compliance case to look at whether the charity trustees had properly discharged their legal duties around its governance, oversight of the subsidiary trading arrangements and agreements with E.ON.

We found Age UK had complied with its processes but had not sufficiently considered the risks of targeting beneficiaries with a commercial product in an area where the charity also campaigns on behalf of its beneficiaries.

We asked Age UK to conduct a governance process review and a comprehensive review to determine that taking part in the energy market remains in their best interests.

We recommended that it ensures commercial arrangements and partnership are monitored. We also recommended that the charity reviews its online literature to ensure its product endorsements explain the basis on which products are being endorsed by Age UK.

**Impact of our involvement:** Age UK has commissioned a review to ensure its trading activities do not undermine its charitable purposes. Trustees will be meeting to discuss the other recommendations in May. The wider sector must think about whether their commercial activities would be well-received by donors, and consider their reputation when making decisions about fundraising.

In October we jointly hosted the successful first national charity fraud prevention conference with the Fraud Advisory Panel (FAP). We also published a joint national report with FAP on the key themes and best practice.

In October we also launched a new Charity Sector Counter Fraud Group (CSCFG), bringing together over 30 charities, professional bodies and other key stakeholders. It meets four times a year to identify emerging fraud risks, share good practice and support charities to enhance the sector's capability to prevent fraud.

### Organisations registered as charities whose purposes do not operate for the public benefit

#### Help Africa Charity

The charity's objects were to prevent or relieve poverty and to provide assistance to people anywhere in the world who are the victims of war or natural disaster. The charity's application explained that it would mainly help beneficiaries in Africa.

**Why we got involved:** HM Revenue and Customs (HMRC) contacted us in April 2013 for information to help their investigation into suspected fraudulent applications for Gift Aid by the charity. We provided this and at the request of HMRC, did not open our own investigation. In June 2015 HMRC told us that two individuals, one current and one former trustee, had been charged with offences under the Fraud Act 2006.

**The action we took:** HMRC found no evidence that the charity had spent funds to meet its objects or support the gift aid applications the charity had submitted. We concluded that it was not operating for a charitable purpose.

**Impact of our involvement:** We removed Help Africa from the Register on the basis that it appeared to have been established and operated for non-charitable private purpose. Our close working with HMRC helped with HMRC's successful investigation.

## Encouraging the public to give more safely

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. For the Ramadan campaign, for example, media coverage included 46 radio interviews and five more radio features, alongside a feature on the flagship current affairs programme 'Living the Life' on the Islam Channel; it also featured on online and local print media. The campaign had a potential reach of several million people.

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

There are 850,000 trustees of charities regulated by us in England and Wales covering 950,000 trustee positions. Some 100,000 positions saw a

change of trustee last year - nearly 1 in 10. Most trustees are unpaid volunteers, sometimes with limited knowledge of what being a trustee entails.

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. We do so within a reduced budget, so we can rarely offer one-to-one advice.

## Better, more user-friendly digital services

As part of our Transformation Programme, we have developed a comprehensive digital strategy. Central to the strategy is establishing good customer journeys that enable charities to access services that they need, and allow them to manage day-to-day updates online themselves.

This includes filing annual returns and accounts online and will include amending governing document provisions, such as changing the name

of a charity. In addition we have been working hard to improve to the process of obtaining and changing online passwords, updating charity details and notifying us of changes within charities.

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

One of the digital projects is an improved online registration process which we started to trial in March 2016.

### **An improved registration process**

The number of applications for registration as a charity has been rising for three years, and in 2015-16 was up 14% on the previous year. There was also an increase in the number of registration applications for charitable incorporated organisations, up 29% to 2,911 (2014-15: 2,248).

Despite this substantial increase, we sped up the registration process, with average registration timeframes down from 62 days in March 2015 to 58 days for the full financial year. We also worked to ensure the process remained robust.

In 2015-16 there were 8,198 applications (2014-15: 7,192), of which 5,169 were registered (2014-15: 4,648). This means that 2,644 applications (2014-15: 3,333) did not result in registration after we sought further information. We formally rejected 90 applications, (2014-15: 34).

Charities' details were viewed on our online register 8.1 million times (2014-15: 7.5 million).

Throughout the year we worked to develop our new online registration process which is now live. It is available in both English and Welsh. The aim is to make it easier for applicants to provide us with more of the information we need to make early decisions. It will allow them to register faster by ensuring they send us all the information we need to make a decision. At the moment nearly 20% of applications are incomplete; going back to charities for more information takes time.

The very early results in the three weeks to the end of March are looking positive, with around 20% of the 70 applications assessed as ready for immediate registration compared to 5% under the old process.

This year there were nine registration appeals ongoing in the First-tier Tribunal (Charity), a small number compared to the number of registration decisions taken by us.

Of the four tribunal cases concluded this year, one was decided in the Commission's favour (Cambridgeshire Target Shooting Association, CTSA), one overturned (the Commission's decision on Independent Press Regulation Trust, IPRT (see the Legal annex) and two cases were withdrawn by the Appellants. Five cases were ongoing at the end of 2015-16.

### Organisation appeals against the decision not to register it as a charity

#### Cambridgeshire Target Shooting Association (CTSA)

**Why we got involved:** CTSA had appealed our decision not to register it as a charity. We took this decision on the basis that it had not been established that target shooting as undertaken by CTSA promoted health, and so CTSA could not be said to be promoting amateur sport for the purposes of the Charities Act 2011.

**The action we took:** The Tribunal confirmed that it was for CTSA to prove, on the balance of probabilities, that the skill or exertion involved in the sport promotes health. Both CTSA and the Commission presented expert evidence as to the suggested health benefits of target shooting.

**Impact of our/the Tribunal's involvement in the case:** The Tribunal dismissed CTSA's appeal. The Tribunal concluded that the activity of target shooting undertaken by CTSA encompassed a number of discrete activities or disciplines which it had not been demonstrated to promote health. Amongst other things the Tribunal confirmed that we were right to require robust evidence in support of the suggested health benefits of shooting.

A fuller report on this case is included in the Legal annex.

## New ways of communicating with trustees

We explored new ways to reach trustees to equip them with the tools and information that they need in order to prevent problems in the first place.

Since 2014, we have been emailing a quarterly newsletter, 'CC News', to every trustee whose email we have, 245,000 trustees at 31 March 2016, updating them on what they need to know. We also communicate more through social media both to disseminate new guidance and to promote general regulatory messages, following a different theme each month.

We are working on a new online charity portal which will allow us to send targeted guidance to trustees. For example trustees could get sent reporting requirements for their size of charity. And trustees will be able to get notifications when our guidance changes.

We recognise the importance of understanding the sector we regulate, and this includes having an open dialogue with influential charities and their leaders. Our directors each have their own individual programmes of engagement and discussion with key charities across the range of sub-sectors, purposes and activities represented on the Register. This allows an opportunity for informal discussion and reflection on wider issues and gives us insight into current and future priorities and concerns for charities. Our regular programme of speaking engagements and participation in round table discussions and seminars gives us further insight.

#### Media coverage

Throughout the year we used the media to disseminate our research and guidance and to highlight issues for charities.

### Why don't trustees file on time?

In December 2015 we published a press release including what we consider to be implausible and unrealistic reasons trustees gave for failing to file their annual reports and accounts. This helped us to make a serious point about the importance of charities submitting accounts on time as it generated significant coverage in national and charity sector media.

We are also making more use of regulatory alerts which provide an early warning to charities about emerging frauds and other risks they may face. This year we issued nine alerts including our first proactive one targeted at 2,400 charities we identified as having commercial partnerships following a number of concerns raised with us this year. The significant media coverage helped to get the message out to charities and trustees. Others reflected the increasing risk of online fraud, including alerts about online extortion demands and mandate fraud.

We have started to stream our quarterly public meetings online so that more trustees can participate, starting with our meeting in Southampton on 29 February 2016. We also continue to place importance on face-to-face interactions with charities and trustees where our resources allow. Last year we participated in 60 outreach events or meetings, reaching around 1,900 delegates from 900 charities. Our collective speaking engagements saw us face to face with thousands more trustees and charities.

### Providing clear guidance to trustees

As well as communicating our work better we have also worked hard to use a clearer, simpler style for our written guidance in 2015-16 to make

it more accessible to all trustees; and we have also used video, graphics and blogs to help get the messages across.

### The essential trustee

In July, following extensive consultation, we published the new version of our core guide for trustees: 'The essential trustee, what you need to know, what you need to do (CC3)'. It sets out the six key duties that trustees have to comply with when running their charities, and against which we hold them accountable. This guidance is essential reading for all trustees and we have been actively promoting it since publication.

The six duties:

- ensure your charity is carrying out its purposes for the public benefit
- comply with your charity's governing document and the law
- act in your charity's best interests
- ensure your charity is accountable
- manage your charity's resources responsibly
- act with reasonable care and skill

We want every trustee to read and make use of this guidance so that standards of governance improve and basic errors are avoided. Working with charity sector bodies such as NCVO, the National Governors' Association, the Museums Association, and Association of Chairs, we have made good early progress. Charity lawyers and the Directory of Social Change updated their trustee training to reflect it. We nearly doubled our readership to 39,000 in the six months from October-March (2014-15: 22,000). We will continue to promote the guide in 2016-17.



*The new guidance is clearer and more concise than its predecessor, with a structure that's easier to follow. These improvements and the added clarity are a result of the Charity Commission's thoughtful consultation process, taking on board feedback and addressing our concerns.*

**Karl Wilding at NCVO**

### Financial guidance

Good financial management, particularly in view of charity failures this year, was a theme for the year. We revised three key pieces of financial and governance guidance to make it clearer to trustees what they need to know:

1. 'Charity governance, finance and resilience: 15 questions trustees should ask' is a checklist of key things trustees must regularly ask themselves. These include: are you doing what your charity was set up for, is your funding secure, have you got good systems in place and have you got enough funds to sustain the charity?
2. 'Charity reserves: building resilience' advises all charities to have a reserves policy and record it. It will not be the right thing for every charity to have reserve funds, and there is no single level that is right for all charities, but trustees must be able to explain why they made their decision on the reserves they need.

3. 'Managing a charity's finances' recommends trustees review the charity's financial position and its performance against budgets and future projections at least once a month. It may help charities identify financial problems and if necessary plan for an orderly shutdown.

### New guidance on whistleblowing

We refreshed our guidance for charity employees on how they can raise concerns with us under the Public Interest Disclosure Act 1998. It is linked to a dedicated whistleblowing email address and it explains how the Act facilitates reporting lines (one of which is to the Commission as a prescribed person under the Act), and how it provides some protection for employees who have been detrimentally treated as a result of making a whistleblowing disclosure. We see whistleblowing as a valuable means of detecting serious wrongdoing in charities that do not adequately address concerns themselves.

### Whistleblowing to the Commission

We dealt with 143 whistleblowing enquiries this year (2014-15: 114). Approximately a third of cases came through from auditors: 16 (2014-15: 18), and independent examiners: 40 (2014-15: 46). Most (87) came from employees: (2014-15: 50). As a result we opened 85 cases of which 16 are still active, one resulted in a statutory inquiry, and three in Action Plans.

### EU referendum guidance

In March 2015, following calls for specific guidance on the EU referendum, we published regulatory guidance for charities considering public involvement in the debate. Some concerns were raised about aspects of the guidance. We listened to this feedback and swiftly made some changes to the wording to provide further clarity.

## Charities funding non-charitable organisations

During the year, we developed and published draft guidance for trustees of charities wanting to make grants to non-charitable organisations. The consultation closed in April 2016 and we expect to publish final guidance on this issue before the end of 2016 following further discussion with charities. The draft guidance was produced following our regulatory engagement with two charities that had funded Cage, a non-charitable company.

You can read our case reports into The Joseph Rowntree Charitable Trust (JRCT) and The Roddick Foundation on GOV.UK for details of our findings and conclusions. The JRCT report also includes a summary of Cage's judicial review challenging our regulatory work, which concluded with the Court dismissing two of its grounds of claim and Cage withdrawing the other on the basis that the parties agreed a statement clarifying the legal position.

## Giving permissions to charities to help promote the effective use of their resources

We opened 1,582 permissions cases (2014-15: 1,169) and closed 1,617 (2014-15: 1,425), protecting £17.1 billion income. We have streamlined some of the processes for permission seeking, so that we now make more use of templates. This will speed up cases.

We made twice as much use of our enabling as our compliance powers in our operations team this year (489 uses).

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.

### Case studies: Giving charity trustees the power to act on their moral obligations

#### National Trust

We made a decision in July 2015 which enabled the National Trust to negotiate an agreement with its tenants to waive entitlement to a percentage of modern ground rent.

**Why we got involved:** When trustees believe that they have a moral obligation to act, but do not have the power to do so, we can authorise that action.

**The action we took:** We agreed in principle in July 2015 that laws on ex gratia (that is acting on moral obligations) could apply. It was an unusual use of the legal provisions and enabled steps to be taken which would mean that an Order could be made early in the next financial year.

**Impact of our involvement:** We enabled the National Trust to treat tenants of their properties in a fair, moral way. Had we not done so a number of tenants in around 300 properties might have had difficulty in paying increased rents.

### Advising a charity on its power to sign contracts to develop new facilities for the public

#### The Royal Collection Trust

The Royal Collection Trust is responsible for the maintenance and conservation of the Royal Collection, and its presentation to the public.

**Why we got involved:** The charity wanted to provide a new conservation studio for the charity's armourer and other conservation work in the grounds of Windsor Home Park and a new learning centre to provide appropriate, dedicated learning facilities within Windsor Castle at Pug Yard. It planned to fund the construction costs of a new studio in return for licences (and not leases) to use space given the unique nature of Crown property.

**The action we took:** We considered whether the proposals were in the best interests of the charity and sought further information from the charity to confirm this. We concluded that the charity could enter into agreements with the Royal Household to secure the proposed new facilities, even though it would only receive a licence to occupy the land. We gave formal advice to the trustees (under the provisions of s110 Charities Act 2011).

**Impact of our involvement:** By acting in accordance with our advice, the trustees have the reassurance of knowing that they have acted properly and in accordance with the trusts of the charity.

### Altering a charity's governing document to keep pace with regulatory and market developments

#### The Sir Thomas Lipton Charity

When Sir Thomas Lipton (founder of the Lipton tea brand) died in 1931, he left his London home to a trust and it became a home for retired nurses. Over the years, national charity 'The Friends of the Elderly' was appointed as trustee and it became a care home for a wider group.

**Why we got involved:** In recent years, the trustee found that keeping the care home open was no longer viable, principally because of the regulatory requirements for registered care homes and market expectations. In August 2014 it was closed. However, under the trusts, the property was required to be used for the charity's purposes and the trustee could not change this.

**The action we took:** We agreed to use our powers to alter the trusts by making a 'scheme' to give the trustee power to dispose of the property after considering representations from the public.

**Impact of our involvement:** The revised purposes still require the charity to hold land. That means that when the property has been disposed of, the trustee must consider buying a replacement property. If this is feasible, the trustees must apply to us for a further assistance.

We worked with charity funders, professional advisers, umbrella bodies, and other government departments and regulators during the year to help improve trustee effectiveness. Our work includes the Cass Centre for Charity Effectiveness and the Cranfield Trust Trustee awareness campaign, the development of a new regulator for charity fundraising and advice covering a whole range of issues affecting charities, including issues such as the right of tenants to purchase charitable housing stock and changes to academies and free schools. We worked with the Institute of Directors to create a trustee development programme which launches in 2016. As a member of the Wales Good Governance Group we promoted the importance of good financial controls.

### **Trustees' Week**

We worked together with several sector bodies, including the Wales Council for Voluntary Action, the Scottish charity regulator OSCR, the National Union of Students (NUS) and professional bodies on the sixth celebration of trustees, Trustees' Week, in November 2015. This helped promote trusteeship to a wider audience and the theme was about recruiting diverse talent. This year we used the week to promote our revised 'Essential trustee' guide, both in person at the NCVO Trustee Conference, and online. There was a significant spike in readership, up by 24%. We also strengthened our relationship with the NUS.

### **Quality standards**

We recognise the value of quality standards as a way of promoting good charity governance. This year, we brought to an end our programme of

endorsing individual sets of quality standards, as it is a resource intensive exercise for us to undertake effectively. We believe a more effective use of our resource is to facilitate, promote and communicate to trustees the work of our former Endorsement Partners and other sector bodies that are now taking the lead in working collaboratively to develop sector-wide quality standards.

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

Charities must never take public support for granted. We know that transparency and accountability is vital to public trust and confidence. Our register of charities provides up to date, accurate information about charities that often informs funding decisions.

### **Being quicker to remove from the Register those charities that cease to exist, become insolvent or which we decide are no longer, or never were, charities**

We have worked on being faster to remove non-charities in order 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 4,442 charities from the Register (2014-15: 4,800).

## Double defaulters

We received 87% of accounts on deadline (2014-15: 86%); and this accounted for 99% of sector income (2014-15: 99%).

Double defaulters are charities that failed to file reports and accounts for two years running.

Our class inquiry into double defaulters continued with 32 charities becoming part of it during the year. All the charities involved in the inquiry were compelled to make good the default to file the outstanding information, 18 of those charities having been formally directed to do so under s84 of the Charities Act 2011. Eighteen charities have already done so with 14 due to respond in the near future. As well as these, 13 charities from the class inquiry in 2014-15, have also made good their default, bringing the total number of compliant charities to 27 for this financial year. As a result, £15.5 million of charity funds is now visible to the public on our Register.

## Changes to the Annual Return in 2016

The Annual Return will be different in 2016-17. For example, it has been simplified so that for around 70,000 of the smallest charities it is very easy and quick to complete. The financial section has changed to reflect changes to accounting practices for charities and our guidance has been simplified. We have also incorporated customer feedback into the development of the fields and the guidance to make it more user-friendly. We are inviting further feedback on the new Annual Return through GOV.UK.

All charities will have to update their charity details (trustees, addresses, emails etc) through a separate easy to use service before they complete the Annual Return and will have to declare that they have done so.

In 2015-16 we received 87% of Annual Returns on deadline (2014-15: 80%).

## Encouraging charities to file better Annual Reports and Accounts

We continued to promote better accounts and annual reports for charities through our accounts monitoring work.

Our accountants analysed the latest available information to inform our cases and identify key themes from the accounts to raise financial governance standards within the sector. Using our section 52 powers (powers to require charities to produce information or documents) we analysed the bank statements of 180 charities to identify suspicious transactions. Informed by that analysis and our review of reports and accounts we conducted 107 books and records visits to charities to hold trustees to account. This evidence was key to establishing a case for action resulting in eight witness statements made by the team and the giving of evidence in one case. We used charity accounts to identify issues and challenges facing the sector pro-actively and our team of accountants scrutinised 986 sets of accounts.

From our four reports on the quality of charities' accounts we identified that small charity accounts especially need to improve the most but those small charities opting to use an independent examiner or that used our report and account templates achieved better results with 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.

We also found that accounts quality improves with the size of the charity with ongoing improvement shown by those charities required to file with us. Many still do not tell their story well. Too few charities are reporting on how well they are serving their beneficiaries. Many of our inquiry cases involve private benefit, yet of those charities reporting under Statements of recommended practice (SORPs, which explain how charities should report), we found that only 74% of them had included a note on trustees' pay, as required by the SORP. This is an area that the new SORPs address by specifying more clearly what must be disclosed.

- 42% of charities' annual reports demonstrate a clear understanding of public benefit, (2014-15: 35%)
- 77% of charity accounts were of acceptable quality (2014-15: 68%)

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

## Changes to Accounting for Charities in 2015-16

Accounting in the UK, commonly known as Generally Accepted Accounting Practice, (UK GAAP), has been through a period of rapid change. Two new SORPs came into effect for financial years beginning 1 January 2015 to support the accounting options available for charities under UK GAAP. Further changes to UK GAAP from 2016 simplified the accounting framework permitting us to consult on changes to the UK Charities SORP in 2015.

For financial years beginning on or after 1 January 2016 there will just be one SORP, the Charities SORP (FRS 102). To avoid a burden on the sector in reissuing this SORP, with Financial Reporting Council approval, we and the Office of the Scottish Charity Regulator published an Update Bulletin in February 2016 to ensure that the charity reporting and accounting framework was kept up to date with changes in UK GAAP.

To raise standards, working with accounting professional body ACCA, we produced a guide for international not-for-profits to applying the international financial reporting standard for Small and Medium-sized Entities. Published in October 2015, the guide promotes UK SORP based reporting practices internationally, so helping to raise the standards of financial reporting by international partners working with UK charities.

In a first step towards digital accounts filing, following our joint consultation with the Financial Reporting Council we jointly issued a charity taxonomy extension in February 2016 to enable the filing of electronically 'tagged accounts'. By using technology to 'tag' key items in the accounts we can open up accounts and make it easier for the public to compare data about charities and for us to identify patterns. The taxonomy is the essential first step towards enabling the filing of 'tagged accounts' for charities and ending the potential digital divide in the filing options open to charitable companies as opposed to other forms of registered company. Building on this, we are pursuing opportunities for joint working with Companies House to enable tagged filing by charitable companies.

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

Well-run charities deserve an efficient, robust regulator, recognised for its expertise and judgment and supported by a sustainable funding model. Our Transformation Programme will assist us in the delivery of this strategic priority.

### Investing the additional funding given to us by the Treasury from 2014: the Transformation Programme

We are in the second year of a three-year Treasury-funded £8 million programme, to redesign our operating model and business processes to reduce complexity and achieve higher efficiency. There are five key parts to the investment programme:

#### Risk-led regulation

As discussed above, this year updated our Risk framework. We started to improve our data quality and bespoke technology is enabling better use of that data to assess regulatory risk in individual cases and the charitable sector.

#### Operational efficiency and effectiveness

We are developing end to end business processes and rules covering casework; archetypes (typical cases); and a single casework system with an automated workflow. This will lead to more consistent regulation, a better process and faster granting of permissions and consents. We had 102,147 emails, calls and letters last year (2014-15: 120,157) and 90% of customer enquiries were responded to within 15 working days (2014-15: 72%).

#### Exploit digital

We want charities to be able to access self-serve applications easily. This year we launched our digital strategy and launched an online annual return and a new online registration service. The early results are promising. The benefits we expect are for the user experience to be faster and for the accuracy of our data to be improved. The extra time we gain will enable us to put more focus on high priority casework.

#### Commission culture

We are reorganising teams and aligning skills to help our workforce meet changing demands and help us do more with less. This year we launched a workforce plan, skills survey, leadership development programme and staff training programme.

#### Sustainable funding

Given our current spending freeze (in the spending review, November 2015) we are working on a unit cost model, and a funding model and business case for sustainable funding. This should help us make better decisions about current resources.

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 we need, now and in the future, to regulate charities in a way that means the public can have trust and confidence in them.

In our Strategic Plan 2015-18, we said we would consult on proposals for funding options, including an annual charge for charities. This will enable us to explore ways to secure consistent funding for charity regulation.

We will be launching a consultation on our funding later this year.

## Operating as an efficient and expert regulator

We continued to work hard to improve the efficiency of our regulation and reduce costs.

We have streamlined and restructured our caseworking team and focused on simplifying processes including the assessment process for opening an inquiry. The aim was to make it less bureaucratic to ensure cases that need to get into an inquiry do so as quickly as possible and that compliance cases are resolved more quickly and consistently.

We moved offices in Taunton, making a significant saving of around £650,000 a year by downsizing and having more staff working from home.

### Parliamentary Ombudsman

Complaints about the Commission to the Parliamentary and Health Service Ombudsman (PHSO).

The number of complaints that reach the second stage of the Commission's internal complaints process (Stage 2 reviews) has gone down from 55 to 30 this year. These reviews look at the standard of service provided by the Commission. We deal with three main types of complaints as Stage 2 reviews - insufficient regulatory intervention, mistakes/unclear or incorrect advice and delay/timeliness.

Of these 30 complaints, four were fully upheld (double the number last year) and 11 partially upheld (12 last year).

PHSO accepted seven complaints for investigation this year (two more were received and are being assessed), and reported on five. Of these, none were upheld in full, one was upheld in part, four were not upheld. This increase in complaints

filed by PHSO reflects its strategy to increase the number of investigations it undertakes.

PHSO made eight recommendations and we complied with all of those.

Very occasionally, our administration falls below acceptable standards and requires a financial remedy to put things right. This occurred on two occasions during the year, leading to payments totalling £19,980 (no payments were required during 2014-15).

In one case we made a payment in recognition of unclear and contradictory decisions, delays and poor levels of service. This had been handled several years ago, but led to long-running dissatisfaction which we resolved this year.

In a second case we provided recompense for unnecessary delays in our administration which had created inconvenience to the complainant.

### FOIs

We received 642 Freedom of Information requests (2014-15: 560).

## We met 17 out of 19 KPIs and of these, one out of two External Performance Indicators (EPIs) measured this year

This year we measured 17 KPIs and two EPIs and met the targets for 17 out of the total of 19. The internal KPIs include a range of measures that track the number of cases we deal with, the time taken to resolve cases, and the quality and beneficial impact of our work. They also measure the number of accounts and annual returns filed on time and their quality.

We have set new KPIs for 2016-17, aligning these with our strategic priorities.

## External Performance Indicators

The first EPI tracks the quality of our work (measured by the percentage of our casework reviews rated acceptable or better), where we exceeded the 90% target at 94% (95% last year). It is encouraging that our casework continues to meet high standards, ahead of our target, with no material change from the previous year. Our casework is measured across 10 sectors of the business, with 824 quality reviews last year tracking different measures in each distinct area of the business. For example, the First Contact (customer-service) telephone call casework might fail a review if our employee did not use the standard script to begin the call.

The second EPI tracks overall level of public trust and confidence in charities. This is measured by a survey of public trust and confidence carried out every two years. It is therefore an indicator that we can influence but not directly control. The benchmark level for trust and confidence was 6.7. The actual figure this year was 5.7, 1 point down on the last time we measured it (where 0 is no confidence and 10 is full confidence).<sup>1</sup>

It is disappointing that public confidence in charities has fallen, principally, we believe, as a result of the high-profile problems the sector has faced over the last 12 months. However, given some of the headlines and reaction to these issues, there are reasons to believe the overall level of trust and confidence could have been more severely damaged.

## We progressed the NAO recommendations

We continue to track our progress against the National Audit Office recommendations made in the 2013 report, 'The regulatory effectiveness of the Charity Commission'.

In 2015-16, we met the NAO's recommendations to set out a clear strategy and plan for transforming ourselves as a regulator through implementing our Strategic Plan 2015-18 and our Transformation Programme. Alongside the work described against our strategic priorities above, we have been working on HR and culture change plans to ensure the right people are in place to meet business priorities.

We have made good progress on most of the recommendations in the NAO report. This includes most notably completing the review of our governance framework and an assessment of board effectiveness; finalising and implementing our strategy to persuade more public authorities to share data; developing a proactive monitoring strategy; and publishing equality case data every quarter. We regularly meet HMRC and others to discuss data-sharing and have used gift aid and tax haven data to generate proactive monitoring work.

We are on course to improve our unit cost measurement and to make better use of our data. We have our monthly and weekly reporting data in place and trends are on the whole improving.

We have reversed the trend noted by NAO where we were taking longer to register charities. Despite the fact that registration applications were up 14% in 2015-16, we sped up the registration process with average registration timeframes down to 58 days for the full financial year. Our new online registration system is now live and allows applicants to register faster as it ensures we are sent all the information we need to make a decision.

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<sup>1</sup> *Public trust and confidence in charities 2016*, research conducted by Populus on behalf of the Charity Commission.

## Defending our decisions in the Tribunals and Courts

A wide range of the Commission's decisions, directions and orders may be challenged in the First-tier Tribunal (Charity) ('FTT'). These are listed in Schedule 6 of the Charities Act 2011 (the 'Act'), alongside the list of charities and others with standing to challenge our decisions.

During this financial year, there continued to be a small number of such challenges, relative to the significant number of legal powers exercised by the Commission. The Commission also continued to defend litigation with a very high success rate.

### Proactive work in the High Court

Following its first use in the previous year, in 2015-16 the Commission made its second application for directions from the High Court under section 78(5)(b) of the Act.

The Commission asked the High Court for directions authorising the interim managers (which the Commission had appointed to The Cup Trust) to withdraw the charity's Gift Aid appeals. This was on the basis that the appeals had limited prospects of success and the charity does not have a reliable source of funds to pursue the appeals and pay any adverse costs order. Following a hearing in January 2016, the High Court ruled in the Commission's favour and authorised the interim managers to withdraw the gift aid appeals. See further 'Significant cases'.

## Trends and developments

### • Clarification of the Tribunal's jurisdiction:

In March 2016, the Court of Appeal handed down an important judgment regarding the FTT's jurisdiction to hear reviews of inquiry decisions and appeals of production orders under section 52 of the Act, in *R (Watch Tower Bible & Tract Society of Britain) v Charity Commission* [2016] EWCA Civ 154. See further 'Significant cases'.

### • Earlier resolution of cases:

The Commission continued to press for swift resolution of tribunal cases, and engaged in informal discussions with Appellants to encourage them to withdraw their appeals in appropriate cases. Of the 15 cases concluded during the year, 10 were resolved in the Commission's favour without a full hearing. There were three cases struck out or not accepted by the FTT and seven cases withdrawn by the Appellants.

### • Time limits for FTT cases:

Under the FTT's procedural rules, Appellants have 42 days to bring their case by sending a Notice of Appeal to the FTT. During 2015-16, four cases were brought after this deadline; these were assessed by the Commission and the FTT on a case-by-case basis, applying the legal test established by the *Data Select* case (**judgment**). In one case, the Commission

decided to agree to an extension of time due to the particular circumstances of the case (**Steadfast Trust**). In three other cases, the Commission opposed an extension of time. The FTT agreed with the Commission in two cases, delivering reasoned judgments rejecting the appeals. See, (**Ryan**) and (**Muhoro**). In one case, the FTT disagreed with the Commission and decided the appeal was filed in time (**Hunt**). The Commission successfully appealed this decision to the Upper Tribunal, which accepted the Commission's arguments and applied a sensible approach to the time limits for challenging the Commission's decisions in the FTT.

- **Third party appeal rights:**

Of the 22 FTT cases ongoing during the year, most cases were brought by a charity (eight cases) and/or its charity trustees (11 cases). There were five cases brought by other Appellants, who argued they were 'persons affected' by the Commission's action. The FTT refused to accept these arguments in some cases.

During the year, the Upper Tribunal heard an important appeal on this issue (*Nicholson v Charity Commission*). In its judgment, the Upper Tribunal ('UT') for the first time provided its view on the 'person affected' test for access to the FTT, upholding the Commission's position. See further 'Significant cases'.

- **Costs orders:**

During the year, the Commission has been proactive in seeking costs orders against Appellants, where it was appropriate and proportionate for the Commission to recover its costs in this way. For example, the Commission obtained a costs order in a High Court case in which it successfully resisted an application for disclosure of documents about a charity. The Commission also applied for a costs order in one UT case, following the UT refusing the Appellant permission to appeal, but this order was not granted. The Commission will continue to apply for costs orders in appropriate cases.

## Significant cases

### Cases in the Court of Appeal, the High Court and the Upper Tribunal

#### Court of Appeal - Watch Tower Bible and Tract Society

This charity and its trustees applied for permission to pursue judicial review proceedings in the Administrative Court, challenging the Commission's decision to open an inquiry into the charity and its making of orders requiring the provision of documents and information.

In a judgment of 12 December 2014, the Administrative Court (Dove J) refused permission for judicial review on the basis that the charity had failed to avail itself of an alternative remedy: it should have brought its case in the FTT, which has jurisdiction to hear appeals of production orders and reviews of inquiry decisions under sections 320 and 321 respectively of the Act. See: **R (on the application of Watch Tower Bible & Tract Society Of Britain) v Charity Commission** [2014] EWHC 4135 (Admin).

The charity appealed the Administrative Court's judgment to the Court of Appeal, which granted permission to appeal in March 2015 and heard the case in February 2016. The Court of Appeal's judgment was handed down on 15 March 2016: ***R (on the application of Watch Tower Bible & Tract Society Of Britain) v Charity Commission*** [2016] EWCA Civ 154, [2016] All ER (D) 129 (Mar).

In an important judgment, the Court of Appeal gave its view on the scope of the FTT's jurisdiction under sections 320 and 321 of the Act to hear appeals against the Commission's production orders under section 52 of the Act and reviews of its decisions to institute inquiries under section 46 of the Act, as well as the role of the Administrative Court in hearing such cases where the FTT does not.

### **Inquiry decisions**

The Court of Appeal accepted the Commission's argument that the FTT was the correct place to hear Watch Tower's challenge to the inquiry opened by the Commission. The charity had argued that the FTT's remedial powers under the Act were inadequate for the challenge it wished to bring, namely to the scope of the inquiry set by the Commission. The charity expressed concern that the FTT might not give detailed reasons for its conclusions about the scope of the Commission's inquiry; or, even if the FTT did so, there might then be controversy and further litigation about whether the Commission had given proper effect to the FTT's decision. The charity argued that, in the circumstances, it was preferable to allow a judicial review challenge to the scope of the inquiry from the outset.

The Court of Appeal did not accept these arguments, and upheld the Administrative Court's judgment refusing permission for judicial review of the inquiry decision. The Court of Appeal noted that the FTT would have to give reasons, both under the common law and under article 6 of the European Convention on Human Rights (the 'Convention'). It agreed that the Administrative Court was right to regard the fact that the Commission is a responsible public body as a relevant but not decisive factor. As to the potential for controversy and further litigation, the Court of Appeal noted that the possibility of fresh judicial proceedings was often present where the court is unable or unwilling to prescribe with precision what the public body has to do. However, this was not a reason for saying that a statutory appeal is not an effective and convenient form of redress against a public body such as the Commission.

The charity will continue to challenge the Commission's inquiry by seeking permission to appeal further to the Supreme Court.

### **Production orders**

The Court of Appeal accepted the charity's argument on the production order, overturning the Administrative Court's judgment on this point. It was common ground that the FTT had jurisdiction to hear appeals against the Commission's production orders under section 52 of the Act. The issue was whether the statutory jurisdiction granted by section 320 of the Act was sufficiently broad to hear the grounds of appeal put forward by the charity in this case, in particular its complaint that the order was unlawful on the grounds that it was disproportionate, in breach of the Data Protection Act 1998 and/or in breach of Article 8 of the Convention.

Section 320 of the Act applies only to section 52 production orders, and sets out a specific jurisdiction for the FTT in such cases, as follows:

- (2) *On such an appeal the Tribunal must consider whether the information or document in question-*
  - (a) *relates to a charity;*
  - (b) *is relevant to the discharge of the functions of the Commission or the official custodian.*
- (3) *The Tribunal may allow such an appeal only if it is satisfied that the information or document in question does not fall within subsection (2)(a) or (b).*

This contrasts with the FTT’s usual appeal jurisdiction under section 319 of the Act and its review jurisdiction under section 321 of the Act (see *Thrift Urban Housing* for an example of these jurisdictions in practice).

The Administrative Court had accepted the Commission’s argument that the FTT was entitled to consider proportionality, human rights and data protection as part of its assessment of whether the information and documents sought by the order were properly ‘relevant to the discharge of the functions of the Commission’ (section 320(2)(b)). As the Administrative Court noted, *“The definition of the Defendant’s functions under section 15 does not clothe the Defendant with authority to act unlawfully or in breach of other legislation, such as the data protection legislation, which will govern its operations”*. (quoted at paragraph 24 of the Court of Appeal judgment)

The Court of Appeal did not agree. It considered the ordinary meaning of the permitted grounds of appeal under section 320(2), holding *“Thus a section 52 order must be connected with, bear*

*upon and pertain to the discharge of the functions of the Commission”* (paragraph 33 of the Court of Appeal judgment). As a result, the task for the FTT was as follows:

*“section 320 requires the tribunal to focus on the connection between the order and the discharge of these functions. It is required to ask whether, as a matter of fact, there is any connection between the order and the discharge of one or more of the functions. It may allow an appeal only if satisfied that there is no such connection. That is consistent with section 320(2)(a) which requires the tribunal to consider whether there is any connection between the order and the charity itself. This too is a factual question”* (paragraph 34 of the Court of Appeal judgment).

As a result, the Court of Appeal allowed the appeal against the Administrative Court’s judgment on the production order. It remitted the charity’s case on the production order to the Administrative Court for a decision on whether the charity had put forward arguable grounds of appeal, such that it should be granted permission to proceed with its judicial review.

### Implications for charities

The Court of Appeal judgment has significant implications for charities (and others) wishing to challenge an order made by the Commission under section 52 of the Act. It will now be necessary to consider carefully, in light of the Court of Appeal’s judgment, whether that challenge may be brought in the FTT under its jurisdiction in section 320 of the Act, or whether it ought instead to be brought as a judicial review in the Administrative Court, because one or more of the grounds of appeal fall outside the FTT’s jurisdiction.

## High Court - The Cup Trust

This was a case brought by the Commission in July 2015, by an application in the High Court for directions to interim managers it had appointed to The Cup Trust. The application was made using the Commission's power under section 78(5)(b) of the Act, and was the second time this power was used by the Commission, following an application in relation to The Dove Trust in 2014.

The Commission sought directions authorising the interim managers to withdraw a significant claim for Gift Aid by the charity, which had been rejected by HMRC and was now the subject of an appeal by the charity in the First-tier Tribunal (Tax).

The case was heard by Mr Justice Snowden on 19 January 2016. In a detailed judgment handed down on 21 April 2016, the judge allowed the Commission's application and sanctioned the interim managers' decision to withdraw the claim.

The judgment includes a careful examination of the proper approach to the use of the Commission's power under section 78(5)(b) of the Act. The judge adopted the well-established classification of applications to court by trustees discussed by Mr Justice Hart in *Public Trustee v Cooper* [2001] WTLR 901 at 922-924. He concluded that section 78(5)(b) enables the Commission to make applications under both the first category (binding determination of legal rights) and also the second category (seeking the Court's sanction for a momentous decision). The judge agreed that there were exceptional circumstances in this case, which justified the Commission referring the matter to the court rather than using its own powers. This included the unusual facts, the large amounts potentially at stake, and the controversy surrounding the charity (paragraph 69 of the judgment).

The judgment also sets out the approach the Court is to take in such cases, based on *Public Trustee v Cooper* and *Re MF Global UK Limited* [2014] EWHC 2222 (Ch) at para 32. The first step was to establish that the Court had all relevant information, and the judge was satisfied that the Commission and the interim managers had placed all relevant information before him. The Court was also satisfied on the second point (that the interim managers had in fact made the decision for which approval was sought) and third point (that the interim managers were not labouring under any conflict of interest when they did so).

The key question was, therefore, "whether the decision to discontinue the Gift Aid claims is one that a reasonable body of trustees, properly instructed, and ignoring irrelevant factors, could properly have reached" (paragraph 75).

The judge agreed with the Commission and the interim managers that the decision did meet this test. In doing so, he accepted in particular: (i) the advice from Mr Furness QC to the charity that the prospects of the tax avoidance scheme succeeding are negligible; (ii) that the trustee's offer to fund the tax litigation was insufficient to cover the charity's costs and protect it from the risk of a costs order against it; and (iii) because of the conflicts of interests and the trustee's conduct, the interim managers were entitled to take the view that the trustee should not be involved in the charity's tax litigation.

As a result, the judge concluded that the decision of the interim managers not to accept the trustee's offer of funding and to discontinue the Gift Aid claims was within the range of decisions to which rational charity trustees could properly come, and he sanctioned the decision.

## Wider implications

As well as its careful analysis of the Commission's power and the Court's role under section 78(5)(b) of the Act, the judgment is also noteworthy for its comment on the duties of charity trustees when considering this type of tax arrangement. The judge agreed that, because of their duty to apply charitable assets prudently, charity trustees do not have the freedom to 'take a punt' on speculative tax litigation (paragraph 77). This was a point made by Mr Furness QC in his advice to the charity (summarised at paragraph 34 of the judgment).

### Upper Tribunal - *Nicholson v Charity Commission*

The Appellant (Mr Nicholson) is an individual who was seeking to challenge the registration of certain charities (referred to as the 'JNF charities' in the judgment). The legal issue in this case was whether the Appellant had the necessary standing to bring an appeal challenging the charities' registration. The FTT had agreed with the Commission that the Appellant did not have standing because he was not a 'person affected by decision', but the FTT granted permission for an appeal to the Upper Tribunal ('UT') as it recognised that there was no binding legal authority on this point, and it would be helpful to the Commission and to the FTT to obtain a decision of the UT on the correct approach to the statutory test for standing to bring an appeal.

The case was heard by Mrs Justice Asplin on 21 March 2016, and her judgment was released on 20 April 2016 under the reference [2016] UKUT 0198 (TCC).

The judgment upholds the position of the Commission and the FTT that Mr Nicholson was not a person affected by the decision on registration of the charities, and therefore dismissed Mr Nicholson's appeal on the ground that he did not have standing.

The specific issue in this case was whether Mr Nicholson was a 'person affected' as a result of being an 'addressee' of the Commission's decision not to remove the charities from the Register of charities and/or as a result of his engagement with the Commission about this. On this specific issue, the judge held that:

- Being an 'addressee' cannot of itself bring an individual within the category of persons with standing (paragraph 46). This was for two reasons. First, in order to be 'affected', there needs to be an identifiable impact upon the person's legal rights: it was insufficient that the individual disagrees with the decision emotionally, politically or intellectually and as a result is affected emotionally and/or socially, however sincere his concerns (paragraph 47). Secondly, if being an 'addressee' was sufficient to establish standing, this would have the effect of enabling the Commission to increase or restrict the statutory jurisdiction of the FTT by its administrative decisions (paragraph 51). The judge accepted the Commission's argument that this was not the correct analysis.
- The other matters put forward by the Appellant, such as the provision of information to the Commission and the exchange of correspondence with it, did not enhance his position on standing (paragraph 53).

In reaching this conclusion, the judge decided that the FTT's decision in a previous case, *Lasper*, was wrongly decided and should not be followed (paragraph 52).

The judgment also provides helpful guidance more generally on the question of when an appellant will be a 'person affected by a decision', which applies to many of the Commission's decisions that can be challenged in the Tribunal. In particular, the judge commented (paragraph 44):

- it is necessary to focus solely upon the particular decision and to determine whether in all the circumstances it has had an effect upon the particular person in question
- to demonstrate this, two points need to be established: first, the decision itself must relate to the person in some way; and secondly, the person's legal rights must have been impinged or affected by the decision and to be a person who "may" be affected, there must be an identifiable impact on the person's legal rights which is likely to occur

### Wider implications

The judgment has important wider implications for registered charities, as it confirms that the FTT should apply a narrow approach when considering whether a person has standing to challenge their registration as a charity. The FTT should not accept an appeal based solely on emotional, political or intellectual objections to a charity's registration, but should look for a relationship between the person and the registration decision, as well as an identifiable impact on the person's legal rights.

### Cases in the FTT

#### Vernor-Miles and Ors v Charity Commission (in relation to the Independent Press Regulation Trust, IPRT)

The Appellants appealed the Commission's refusal to register IPRT as a charity.

The Commission had refused to register on the basis that the purposes were not clearly charitable in law. The FTT allowed the Appellants' appeal, and directed the Commission to rectify the Register so as to include it.

IPRT's objects are to "*promote for the public benefit high standards of ethical conduct and best practice in journalism and the editing and publication of news in the print and other media*" by funding and supporting an independent press regulator recognised to be compliant with the principles established by the Leveson inquiry and the Royal Charter on Self-Regulation of the Press.

The Commission refused to register IPRT on the basis that the purposes were not clearly charitable in law. It recognised that the purposes could be analogous to purposes of promoting the ethical or moral improvement of the community or promoting compliance with the law, but concluded that, before any press regulator had been set up and begun operating, it was not possible to determine that promoting that regulator was exclusively charitable.

The FTT was not persuaded by the Commission's arguments that the purposes were unclear or ambiguous, and consequently it was held not necessary to consider extrinsic evidence to determine the purposes.

The FTT accepted that the purpose of IPRT was analogous to trusts tending to promote the ethical and moral improvement of the community recognised as a charitable purpose by the courts and falling within the descriptions of purposes in s.3(1)(m)(i) of the Act.

The FTT agreed with the Commission, and did not accept IPRT's arguments, that the purpose was analogous to other purposes including trusts to promote compliance with the law and promote the maintenance of proper standards in the medical profession.

The FTT agreed with the Commission that IPRT's reliance on a legal authority in another jurisdiction did not fall within the 'old law' in section 3(4) of the Act because it is limited to the law in England and Wales.

The status of the Commission's published decision Public Concern at Work was considered. This is not a decision of the court or a tribunal and does not fall under the 'old law'. The FTT expressed the view that it could possibly be relied upon as falling within section 3(1)(m)(ii) of the Act being analogous to or within the spirit of the descriptions of purposes.

On the issue of public benefit, new evidence was presented by IPRT that was not available to the Commission at the time of making the decision. The FTT was entitled to take into account this evidence by virtue of section 319(4) of the Act. The FTT found it persuasive and noted the Leveson recommendations had been made following a public inquiry and were supported by Parliament. It concluded that the support of a prospective independent press regulator was for the public benefit.

**Read the FTT's decision.**

### **Cambridgeshire Target Shooting Association (CTSA) v Charity Commission**

CTSA had appealed the Commission's decision not to register it as a charity.

The Commission had refused to register CTSA on the basis it had not been established that target shooting as undertaken by CTSA promoted health, and accordingly that CTSA could not be said to be promoting amateur sport for the purposes of the Act. The FTT dismissed the appeal, upholding the Commission's decision. The FTT agreed with the Commission that benefit to health, either physical or mental, was not established.

The key issue to be determined in the case was whether target shooting was a sport which promotes health by involving physical or mental skill or exertion. It was not in question that target shooting was, in general parlance, a sport.

The FTT confirmed that it was for the Appellant to prove, on the balance of probabilities, that the sport promotes health and that the skill or exertion involved must be shown to promote health. The FTT agreed with the Commission that the promotion of health is to be considered to mean improvement in general health. In considering whether the activity promotes health it is necessary to consider the effect of the activity. Where the objects encompass discrete activities, then, if any of those activities which represent a material proportion are not shown to promote health, the purpose is not charitable.

The FTT confirmed that there is no presumption of public benefit, and a purpose must be shown to be for the public benefit. This is an objective test to be determined on the evidence. The FTT considered the expert evidence presented to it on the question of benefit to health: four experts were presented by CTSA and one by the Commission.

The FTT in considering the evidence stated that it needed to be satisfied that the evidence relied upon possessed quality and cogency.

The decision is important, as it is the first case to be considered by the FTT in respect of the charitable purpose of the advancement of amateur sport. Both the Commission and CTSA submitted expert evidence in relation to the question of benefit to health. The Commission had not accepted the evidence submitted to it as sufficient to establish promotion of health. The FTT confirmed that where there is doubt as to such benefit *“neither the Commission nor the Tribunal should lightly reach findings, which result in the advantages of charitable status being conferred in respect of activities for which the science base is less than robust”*.

The FTT considered that the promotion of health by physical or mental activity must be of substance or significance to benefit a section of the public. If the physical exertion is no more than *de minimis* it means the public benefit cannot be established.

The FTT concluded that the activity of target shooting undertaken by CTSA encompassed a number of discrete activities or disciplines, which it had not been established promote health.

**Read the Tribunal’s decision.**

### **Thrift Urban Housing and Peter Alman v Charity Commission**

The Appellants sought a review of the Commission’s decision to open a statutory inquiry (section 46 of the Act) and appealed against the Commission’s order not to part with property (section 76(3)(d) of the Act).

On 17 April 2015, the FTT held that *“the Commission’s decision to open a statutory inquiry was lawful and that the decision to issue the Freezing Order and to leave it in place was appropriate”*.

This decision is a relatively rare example of a FTT case challenging the use of the Commission’s enforcement powers. It is one of the first cases challenging the opening of a statutory inquiry following the guidance given by the UT in *Regentford Limited v Charity Commission & Attorney General [2014] UKUT 0364 (TCC)* on the approach that should be taken by the FTT to such cases.

This FTT decision also provides commentary on the importance of trustee cooperation with the Commission as regulator.

### **The extent of enquiries required prior to the opening of an inquiry**

When it hears a challenge against a decision to institute an inquiry under section 46 of the Act, the FTT exercises a review jurisdiction. The FTT must apply the principles which would be applied by the High Court on an application for judicial review (section 321 of the Act).

The Appellants argued that the decision to open this statutory inquiry was unlawful because:

- the decision-maker should have made additional enquiries prior to taking the decision to open an inquiry but had failed to do so
- the Commission had fettered its discretion by failing to ensure that the decision-maker had all the information that was in the Commission’s possession

- the decision maker had therefore failed to consider relevant information which he should have considered before making a decision to open an inquiry

The FTT disagreed. It held that: *“it is not necessary for the decision of the Commission to have been made on the basis of full and accurate information with regard to the circumstances...for it to be valid and properly made. It is implicit in any valid decision to open an inquiry that additional information is required”*.

The FTT made clear that the lack of accurate information about allegations against trustees or the charity was not in itself an unlawful or irrational basis for reaching a decision to open a statutory inquiry, although the Commission does have a duty to *“take account of all information that is available to it and not have regard to information that is irrelevant”*.

### **Comments on misconduct and/or mismanagement in the administration of a charity**

When it hears a challenge against an order not to part with property under section 76(3)(d) of the Act, the FTT is exercising an appeal jurisdiction. The FTT must consider the order afresh, and may take into account evidence which was not available to the Commission (section 319(4) of the Act).

In considering the appeal against the order in this case, the FTT emphasised the importance of trustee cooperation with the Commission as regulator. The FTT agreed with the Commission that there had been misconduct or mismanagement in the administration of Thrift Urban Housing Limited, finding that this included:

- the lack of cooperation by the trustees with the Commission
- the inability or unwillingness of the trustees to provide documentary records to the Commission
- apparent payment of significant benefits to an individual who at various points was a trustee of the charity
- the signing of a cheque to be drawn on the charity’s bank account by an individual who was not a trustee and who was himself the beneficiary of the cheque - this misconduct/mismanagement was further compounded by virtue of the fact that the cheque was counter-signed by the beneficiary’s sister

Read a copy of the FTT’s ruling.

## 5 Financial performance

The Commission's funding position continues to reflect a tight fiscal policy across government as a whole, with austerity measures meaning that there is now less funding available for regulatory activity. In 2015-16, the Commission received an increase in funding for the first time in five years, following four consecutive years of funding cuts (see 'Our funding'). The Commission's core revenue funding of £21.2 million was supplemented by investment funding of £2 million (2014-15: £550k) as a part of an £8 million investment package to help fund the Commission's Transformation programme. As a part of the same programme, core capital funding was also supplemented by investment funding of £1.3 million (2014-15: £300k).

The resource accounts report a revenue underspend of £0.42 million (2014-15: £0.25 million) and a capital expenditure underspend of £0.46 million (2014-15: £0.25 million).

### Our funding

Our baseline revenue funding for 2015-16 was £21.2 million (2014-15: £20.9 million). The following table sets out our funding limits for the spending period (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	23,050	21,200	21,200	21,200
of which non ring-fenced	26,100	25,250	21,489	20,593	22,351	22,200	20,350	20,350	20,350
of which ring-fenced* depreciation	1,480	770	800	850	850	850	850	850	850
<b>Capital DEL</b>	493	361	725	962	2,200	3,000	1,000	1,200	1,200
Decrease in non ring-fenced Revenue DEL	6%	3%	15%	4%	(8%)	1%	8%	0%	0%

Notes: Revenue DEL includes one-off funding of £2 million (2014-15: £550k) for the Commission's Transform programme.

Capital DEL includes one-off funding of £1.3 million (2014-15: £300k) 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 duly met. Our performance against these limits is set out in the following table:

	Revenue DEL (£'000)	Capital DEL (£'000)	Net Cash Requirement (£'000)
Main estimate	23,200	3,900	26,180
Supplementary estimate	1	(1,700)	(1,699)
<b>Final limit</b>	<b>23,201</b>	<b>2,200</b>	<b>24,481</b>
Expenditure and/or cash used	22,785	1,735	23,744
<b>Surplus for year</b>	<b>416</b>	<b>465</b>	<b>737</b>
Performance within funding limit?	✓	✓	✓

**Operational performance**

The executive directors monitor operational performance with reference to an agreed schedule of Key Performance Indicators (KPIs), which are established at the outset of the year to track performance against the Commission’s Strategic Plan 2015-18, and its business plan for the year. Each KPI has an associated target, and in 2015-16 89% of these targets were met (2014-15: 68%).

Included within these KPIs are two important measures that are designated as ‘External Performance Indicators’. The first measures the level of public trust and confidence in the charity sector as a whole. The second measures the quality of casework within the Commission. Results of these two External Performance Indicators are published on page 28 of this document.

**Better regulation**

The Commission has been active in its support of the government drive for Better Regulation. Our aim is, wherever possible, to lift the administrative burden on the charity sector and this is being taken forward primarily through our digitisation programme. During 2015-16 we implemented a new online facility that allows potential charities to file their new charity application digitally, thereby reducing the inefficiency associated with manual applications that take longer to process. The coming year will see the planned release of further digital services, as set out in the relevant section of this Annual Report.

## 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 GOV.UK. 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 the four SDiG targets is set out in the following tables.

The trends in resource use and emissions are affected by office moves. In April 2015 we moved our office in Liverpool to a smaller footprint within a shared building within the government estate. This has significantly reduced consumption of water, electricity and gas over the prior year. Travel costs have increased over the prior year due to the Transform programme and holding an all-staff meeting in March 2016.

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

### Greenhouse gas emissions

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

Scope 1: Directly by our organisation, eg emissions from combustible boilers or vehicles we own.

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

Scope 3: Other indirect emissions. Those 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 our behalf by suppliers.

SDiG target	Commission performance	Target achieved
By 2016 we will reduce greenhouse emissions by 25% from a 2009-10 baseline from the whole estate and business related transport	Scope 1 & 2: 62% reduction (Note 1)	Yes
	Scope 3: 36 % reduction (Note 2)	Yes

## Greenhouse gas emissions: analysis of performance

		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (tonnes) of CO <sub>2</sub>	Total gas emissions from scopes 1 & 2	1,073	793	708	636	602	625	406
Non-financial indicators (tonnes) of CO <sub>2</sub>	Gross emissions from scope 3: Business travel	114	98	61	60	58	78	73
Related energy consumption (kwh)	Electricity	1,339,085	1,054,242	984,439	939,458	900,964	945,245	723,144
	Gas	1,212,870	700,315	613,408	791,786	732,930	656,160	390,216
	LPG/Other	0	0	0	0	0	0	0
Financial indicators (£k)	Expenditure on energy	186	130	135	141	162	147	112
	Expenditure on business travel	381	278	213	237	289	349	482

Note 1: for scopes 1 and 2, data is only available for our Liverpool, London and Taunton offices. Data is unavailable for our Newport office as these services are provided by the landlord and recharged to the Commission as part of the service charge.

Note 2: scope 3 covers all types of travel undertaken by Commission staff and the use of couriers.

## Waste

SDiG target	Commission performance	Target achieved
By 2016 we will reduce the amount of waste we generate by 25% from a 2009-10 baseline	We have reduced the amount of waste generated by over 75%. In the past two years alone, we have reduced from 7,125 reams down to 1,800 reams in 2015-16	Yes

## Waste: analysis of performance

			2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (tonnes)	Hazardous waste	We do not generate hazardous waste							
	Non hazardous waste	Landfill	47 (e)	9 (e)	4 (e)	10	9.5	13 (e)	9 (e)
		Reused/recycled energy from waste	80 (e)	60 (e)	55	57	58	34 (e)	18 (e)
Financial indicators (£k)	Total disposal costs for non hazardous waste	Landfill + Reused/ Recycled energy from waste	14	17	13	14	15	6*	5*

\* We are unable to derive a breakdown of costs from our Liverpool and London landlords.

## Water consumption

SDiG target	Commission performance	Target achieved
By 2016 we will reduce water consumption from 2009-10 baseline and report on office water use against best practice benchmarks	Water continues to reduce as the Commission has moved to smaller premises in Liverpool. Water usage has decreased by 63% since 2009-10.	Yes

## Water consumption: analysis of performance

		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (Metres cubed)	Water Consumption	4,488 (e)	3,197 (e)	2,495 (e)	2,682 (e)	2,635	2,581	1,665
Financial indicators (£k)	Water supply costs	8 (e)	7 (e)	6 (e)	8 (e)	9	9	6

The tables have been prepared in accordance with guidelines laid down by HM Treasury in 'Public Sector Sustainability Reporting' published on [www.financial-reporting.gov.uk](http://www.financial-reporting.gov.uk). Defra/DECC GHC Conversion Factors were used to calculate our CO2 emissions.

Paula Sussex

Chief Executive and Accounting Officer

28 June 2016

# 6

# Accountability Report

## Contents

Statement of Accounting Officer's responsibilities

Annual Governance Statement

Remuneration and Staff Report

Statement of Parliamentary Supply

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

## Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the 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 department and the departmental group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the departmental group 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:

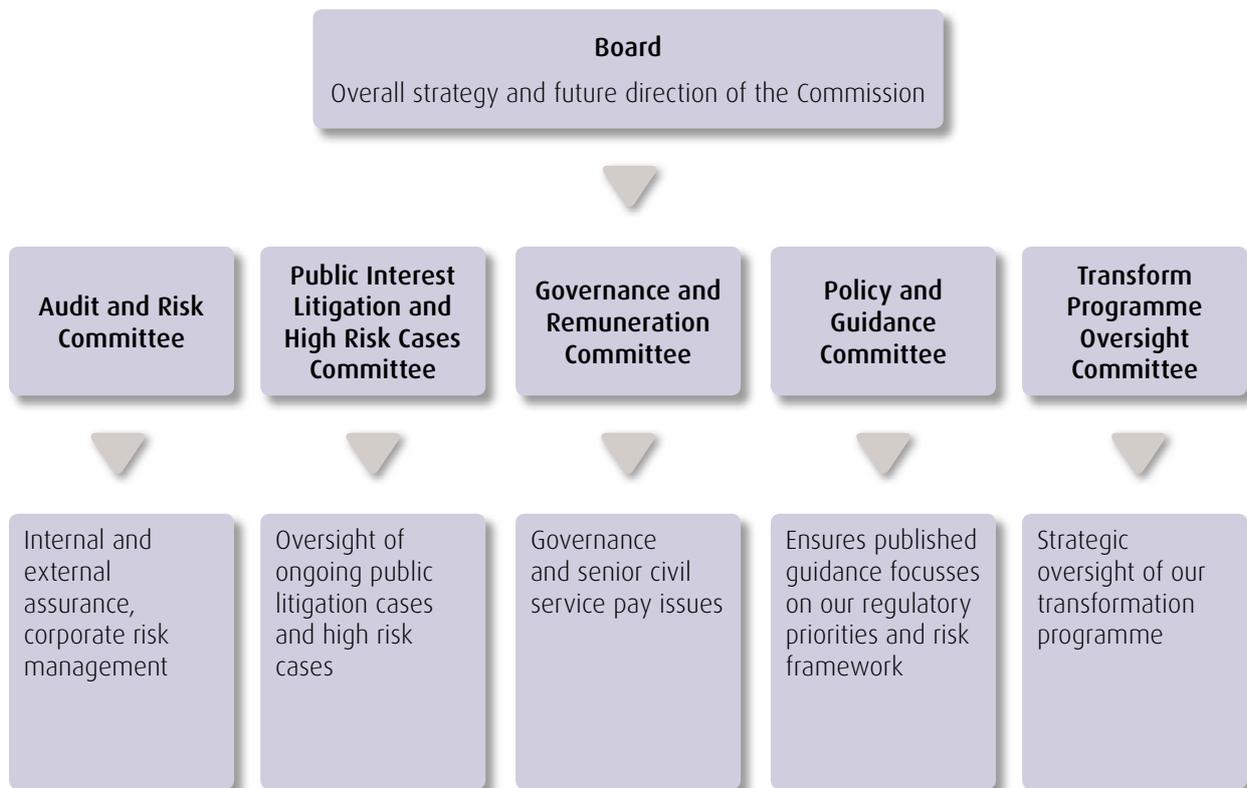
- observe the accounts direction issued by HM Treasury, including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis
- confirmation 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 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 Commission's assets, are set out in the accounting officers' memorandum issued by HM Treasury and published in 'Managing Public Money'.

## Annual Governance Statement 2015-16

The Commission is a non-ministerial government department headed by our chairman and between four and eight other board members. As the Chief Executive, I am responsible for its management and operations, under powers delegated by the board. As Accounting Officer, I am accountable to Parliament for stewardship of its resources. My statement sets out how our governance arrangements have supported effective management of the risks and challenges we faced this year.

### Our governance structures - board oversight



### Our chairman and board

William Shawcross continued as our chair supported by members of our board who, collectively, bring a wealth of experience including charitable activities, social enterprise, accountancy, law, data analytics and risk management. Their varied skills and professional backgrounds provide essential external perspective to focus us on regulatory outcomes in the public interest.

All appointments to our board are made by the Minister for the Cabinet Office following competitive recruitment in accordance with the Commissioner for Public Appointments’ Code of Practice. The Charities Act (2011) provides for between four and eight board members, of whom at least two must be legally qualified and one must be knowledgeable about conditions in Wales. Members may serve for a term of three years, renewable to a maximum of ten years.

Board members during 2015-16 are listed indicating their terms of office and membership of committees, as well as any supplementary roles they hold. There was only one change to board membership within the year with the departure in January 2016 of Peter Clarke to take up post as Her Majesty’s Chief Inspector of Prisons.

Board members	
<b>William Shawcross CVO</b> October 2012 - January 2018	Chair of the board. Chair of Transform Project Oversight Committee, member of Governance and Remuneration Committee.
<b>Michael Ashley MA, FCA</b> November 2014 - October 2017	Chair of the Audit and Risk Committee, member of Transform Programme Oversight Committee and board Whistleblowing Champion.
<b>Eryl Besse</b> June 2013 - December 2018	Board member with special interest in Wales. Deputy chair of the Commission from May 2016. Member of Governance and Remuneration Committee, member of Policy and Guidance Committee, member of Transform Project Oversight Committee, member of Public Litigation and High Risk Cases Committee, board Diversity Champion, board Risk and Data Champion.
<b>Claire Dove , OBE, DL</b> July 2013 - June 2016	Member of Policy and Guidance Committee.
<b>Orlando Fraser, QC</b> July 2013 - December 2017	Legally qualified board member, chair of Governance and Remuneration Committee, chair of Policy and Guidance Committee, member of Public Litigation and High Risk Cases Committee.
<b>Tony Leifer</b> May 2013 - December 2018	Legally qualified board member, chair of Public Litigation and High Risk Cases Committee.
<b>Professor Gwythian Prins, MA, PhD (Cantab), FRHS</b> June 2013 - May 2017	Board Risk and Data Champion, member of Audit and Risk Committee, member of Transform Programme Oversight Committee, member of Policy and Guidance Committee until May 2016.
Departed during year	
<b>Peter Clarke, CVO, OBE, QPM</b> May 2013 - January 2016	Member of Public Interest Litigation and High Risk Cases Committee, member of Audit and Risk Committee, member of Transform Project Oversight Committee.

The initial terms of appointment for five board members were due to end in 2016. To avoid significant disruption to the continuity and effectiveness of the board's strategic oversight resulting from simultaneous departures, we agreed with the Cabinet Office in May 2016 to extend a number of terms of appointments as well as launching a recruitment exercise for new members. At the same time we created a new role of Deputy Chair. We will stagger terms of future appointments to phase departure dates so that we may benefit from the fresh perspective and expertise of new board members alongside the experience and knowledge of longer-serving members.

## Independent advisers

We have benefitted from the skills and knowledge of independent specialists appointed to advise the Commission or sit on committees.

Professor Lorraine Dodd, (Research Director, Cranfield University) BSc (Hons), MSc - is an independent adviser to the Commission on risk and data.

Alan Downey MA, MBA - has been the independent co-optee to the Audit and Risk Committee since May 2014.

Jan Gower, former IBM Executive and PwC Partner - has been engaged as an independent Programme Review and Assurance expert since October 2015.

John Wood - former board member (until February 2014) is an independent member of the Public Interest Litigation and High Risk Committee and Transform Programme Oversight Committee.

Louise Rose, MCIPD - was the independent member of the Governance and Remuneration Committee from 2008 until she stood down in September 2015.

## Register of Interests

Board members perform a number of commercial and voluntary roles outside the Commission, including charitable work. Board members may serve as trustees of charities but not as their chair. Our chair is required to stand down from all charity trusteeships during his term of office, as am I. If board members' other interests may cause, or be perceived to cause, a conflict of interest with our regulatory functions, our procedures oblige them to declare that interest and withdraw from decision making.

The full Register of Interests can be found at [Our governance - The Charity Commission - GOV.UK](#).

Our Audit and Risk Committee chair is the chairman of the Government Internal Audit Agency, which supplies internal audit services to the Commission. There were no conflicts during the year which required him to withdraw from the conduct of business.

The chair of the Public Interest Litigation and High Risk Cases committee stood down during discussions relating to a specific case to avoid the potential for a conflict of interest. Another board member acted as chair of the committee in connection with this case.

Late in the financial year the publicly-expressed views of a member of the board and our Policy and Guidance committee relating to the UK's referendum on EU membership created a potential perceived conflict of interest. The chair has carefully considered the circumstances and possible impacts of the published material and also concluded that failure by the board member to disclose and seek approval in advance of publication was an inadvertent error. To enhance good governance, all board members have been reminded to seek the chair's approval before publishing any material or making any public comment which might be regarded as reflecting on their role at the Commission, and formal consideration will be given to potential conflicts of interest at the start of each board and committee meeting.

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

## Work of the board

The board met formally on six occasions. The focus of the board over the year has been:

Determining our regulatory strategy and enabling priorities over the medium term and approving our 2015-18 Strategic Plan.

Exploring a potential future funding model for the Commission which could include contributions from the sector.

Guiding our approach to the passage of the Charities (Protection and Social Investment) Bill, which proposed important new regulatory powers for the Commission, through Parliament to its royal assent in March 2016.

Considering our regulatory authority to intervene with respect to the high-profile issues relating to fundraising practices by charities.

Reviewing updates from each committee, supervising activities of the Audit and Risk and Transform Project Oversight Committees and of the Public Interest Litigation and High Risk Cases Committee (PILHRC). By exception the board provided direction on specific cases being reported to the PILHRC.

Approving actions designed to improve the skills and capability of trustees leading to stronger, more competent governance and uplifting compliance with the legal framework and good practice.

Developing our tools and guidance for assessing risks to charities in support of our mission to be a tougher proactive regulator, including updating our Risk Framework.

Approving plans to refocus resources to areas of greatest need, reflecting also the impact of advances in technology and digitisation of services.

## Our governance structure - committees

Our committee structure provides an opportunity for the board and executive to work together to achieve effective and transparent decision-making. The main business of each committee within the year is reported in the next section with attendance recorded on page 59.

### Audit and Risk Committee (ARC)

Key activities this year included:

- scrutinising and challenging performance management information
- advising on our new Corporate Assurance Framework and monitoring its progress, including several deep dives to assess control of our highest risks
- assessing the findings from internal audit reports and monitoring management's progress in actioning recommendations
- strengthening oversight on security and information risks by commissioning reports from the Security Steering Group, reviewing IT security and the Departmental Security Health Check
- overseeing arrangements for audit and examining accounting policies, the accounts and the annual report

The ARC's mandate includes reviewing incidents of staff whistleblowing and of fraud, theft, bribery, significant health and safety events or near misses. None were reported during the year.

### **Governance and Remuneration Committee (GRC)**

Key activities this year included:

- considering succession planning both for the board membership and key executive functions
- reviewing findings from the board review and agreeing revisions to our governance framework as a result
- assessing the performance and agreeing remuneration of our senior civil servants and agreeing the 2015-16 non-SCS pay award strategy

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

This year the P&GC considered the range of policy and guidance work currently undertaken and advised on future priorities based on emerging casework trends. A number of areas of revised and new guidance were considered together with the related legal underpinning.

### **Public Interest Litigation and High Risk Cases Committee**

Key activities this year included:

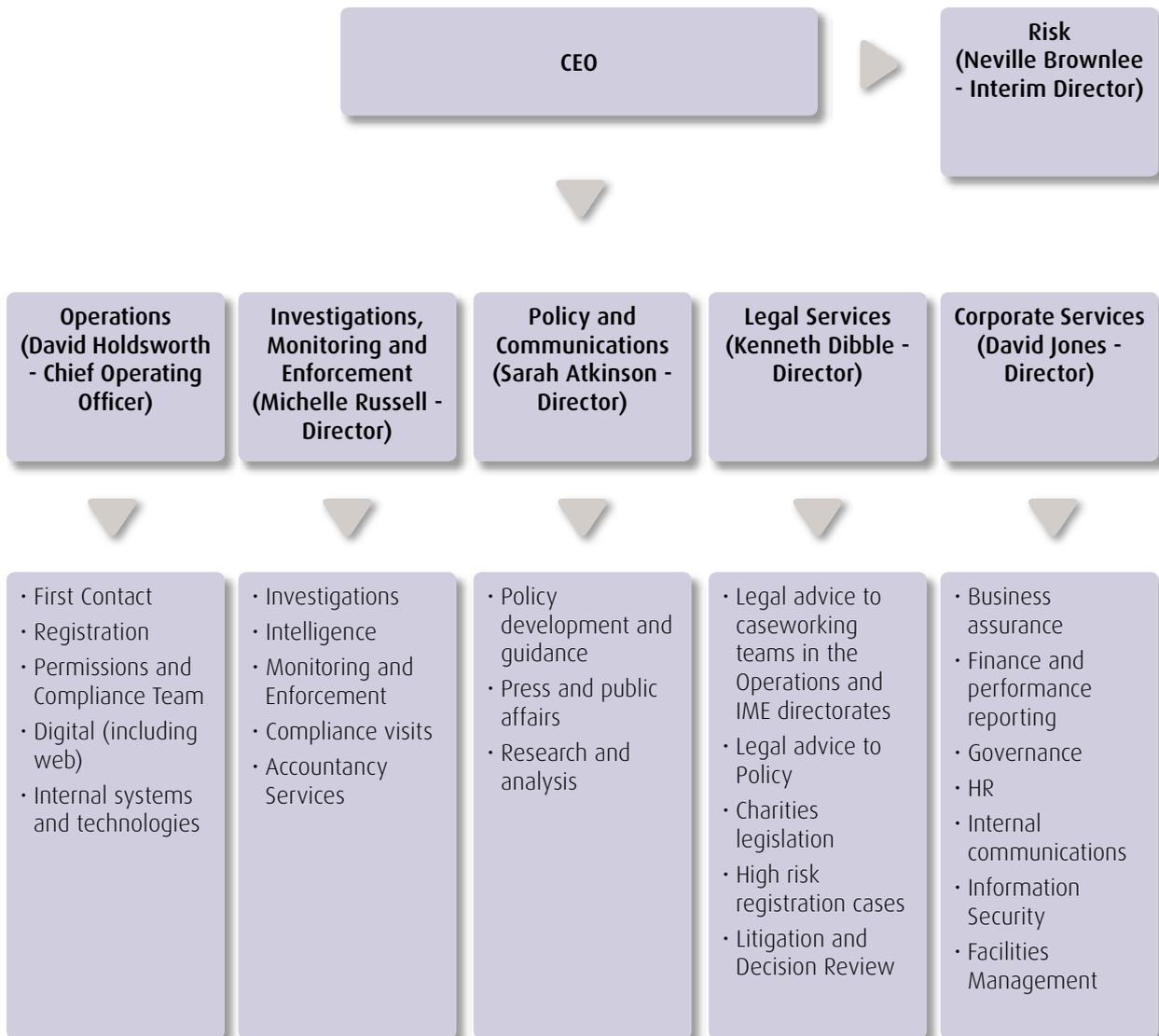
- briefings from the executive on high risk cases and those where litigation in the public interest is under review
- strengthening reporting of high risk cases to co-ordinate inputs and improve information flow between caseworkers, executive directors, the committee and the board
- exploring strategies for closing cases to prioritise competing demands from current and older cases

### **Transform Project Oversight Committee**

The committee continued its assurance role over the change programme which, over three financial years, secured £8 million invest-to-save funding to deliver revised processes, datasets, tools and IT infrastructure for enhanced risk-based regulation and digital solutions. Key activities this year included:

- scrutinising funding for the programme
- supervising project proposals and business outcomes
- monitoring progress against plans, while ensuring governance arrangements were in place both for the programme as a whole and for individual workstreams

Our governance structure - senior executives



The management structure I introduced last year has remained in place delivering effective leadership of our core functions through five directorates. Continuity within the majority of these senior posts has facilitated the progress we report this year, with a new Director of Corporate Services and Chief Operating Officer (COO) joining us early in the financial year following open external recruitment. Personal reasons meant that the initial appointee to the COO post had to tender her resignation after three months, requiring a further competitive recruitment campaign. Interim cover was essential for this role given its oversight of an extensive range of activities. The four months I spent as both CEO and COO provided me with valuable insight into our detailed operational functions. Our new COO was recruited late in 2015 completing my team of directors whose strong blend of skills and expertise will continue to provide robust leadership for the Commission through future challenges.

A principal focus this year alongside strong operational performance was preparing for change in readiness to launch key deliverables from our change programme in 2016-17. We emphasised building leadership along with achieving organisational efficiencies. This year saw investment in our wider leadership team, which brings together senior managers from each directorate who hold responsibility for the delivery of business-critical functions. Changes to the role and remit of this group were supported by coaching and 360 degree feedback to provide every member with insight to support their leadership development. We also set up our first talent management programme which was completed by 15 staff in May 2016. A second programme will commence in mid-2016, and I see this initiative as an essential element in succession planning and building leadership skills for our future.

For change to be truly transformational in the long term, leadership from within the business is a pre-requisite for embedding change into business processes and behaviours. I assigned day-to-day responsibility for delivery of the change programme to the new COO in December 2015, although all directors share the accountability for achieving its benefits. Most importantly, our change programme will increase our ability to respond to growing demands by releasing organisational efficiencies. It will support our delivery of improved regulatory outcomes and better user experiences for those accessing new digitised services.

### **Review of governance and board effectiveness**

The review of board effectiveness and governance which we commissioned in 2014-15<sup>1</sup>, including a review of the ARC, was concluded early this year. Its purpose was to:

- assess the effectiveness of our governance framework in formalising strategic leadership and executive decision making arrangements
- evaluate the performance of our board and the Audit and Risk Committee in their respective roles relative to their statutory duty or terms of reference
- ensure our governance arrangements enable the accounting officer and the board to fulfil their obligations

The review clarified our governance arrangements, as follows:

- the Commission consists of a board which has overall responsibility for all our activities and which delegates most functions to the Chief Executive and staff, while reserving certain functions to itself
- the distinction between reserved and delegated functions is broadly similar to the distinction between non-executive and executive functions in other public bodies, but the board is not obliged to observe that distinction in deciding what to reserve and what to delegate
- for reasons of accountability and transparency, it should always be clear whether the board is exercising a function itself, or overseeing the conduct of a delegated function
- the responsibilities of the board and of the Accounting Officer are mutually reinforcing

The review found that our board has the relevant skills and experience to fulfil its role and provides strong leadership. It is well-qualified for its role and operates effectively, focusing on matters of strategic importance and on our performance. It noted that further recruitment to the board offers an opportunity to enhance board skills with a member who combines board-level experience in the corporate world with IT expertise.

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<sup>1</sup> 'Charity Commission: review of governance and of the effectiveness of the board and its audit and risk committee', 2015.

Commenting on the input from board members, the review concluded that the time commitment of up to 22 days each per six month period, endorsed by the Minister for Civil Society, was consistent with the board's workload. The need for additional day-to-day support for the board was highlighted and we have strengthened our corporate office as a result.

The board, ARC and GRC each considered the implications of these findings leading to changes in our **Governance Framework**.

Other actions we have taken in response to the review include:

- launching a programme of board recruitment which will extend IT and operational expertise while replacing existing skills on a routine basis
- improving the flow of information between committees and the support they receive from the secretariat, with a new role of Board Secretary to improve the effectiveness of corporate office functions
- extending the reach of the Audit and Risk Committee through rebalancing internal audit activities to place greater emphasis on strategic assurance, tightening up financial discipline and overseeing the effectiveness of our Corporate Assurance Framework

### **Performance management**

Our monthly performance dashboard is an important tool for monitoring progress and driving achievement against targets. It is routinely reviewed by the board and ARC and scrutinised monthly by senior management prior to cascade to all staff, including publishing on our intranet. In this way, we ensure that staff have an opportunity to discuss the dashboard each month at team meetings.

Within the year dashboard information was subject to several reviews leading to enhanced processes for capturing data and greater accuracy and reliability. This was supplemented by an internal audit review of our performance management activities, which reported a moderate level of assurance. We are confident that the information we report is accurate and reliable and will be further enhanced once we have implemented the internal audit recommendations alongside a full refresh of the dashboard for 2016-17 to align it to our new business plan, with greater focus on measuring change programme outcomes.

### **Corporate Assurance Framework (CAF)**

Throughout the year we continued developing and testing our new CAF with regular insights and guidance provided by the ARC. Our system operates principally to ensure that we manage risks through a system of procedures and controls. These are not intended to eliminate risks totally, but to identify and prioritise them and apply appropriate mitigations to bring them within our risk appetite. The CAF has streamlined our approach to managing risks, unifying the way in which we categorise and weight them to inform targeted and proportionate mitigations and controls.

Directors review and update our top ten risks each month and they are reported in the monthly performance dashboard reviewed at every level within the organisation. Each directorate maintains its own risk register using the corporate methodology which enables directors to perform an ongoing check that the local registers reflect the top ten risks and vice versa.

Like other regulators, our principal overarching risk remains our ability to deliver robust and effective outcomes within the resources available to us. Treasury's announcement in November 2015 of our funding settlement up to 2020 has reduced the risk of further significant resourcing reductions. As a consequence we can plan future activities with a higher degree of certainty.

The following represent prominent risks we faced this year, all of which we must continue to address in 2016-17.

**Poor regulatory interventions or failure to act decisively in high profile issues and cases undermines our reputation as an effective regulator:** we controlled this risk using our formal Risk Framework to assess concerns about charities which enables us to apply consistent judgments about when and how our regulatory interests are triggered. We updated the framework during the year to ensure that it reflects our current approach. We engaged swiftly with other regulators on cases where their regulatory interests were also potentially triggered. New approaches to caseworking, backed by formal procedures with clear delegation for decision making have contributed to improvements in the quality and consistency of our regulation. Lessons were learnt from cases reviewed by the First-tier Tribunal (Charities) and the courts who provided scrutiny of our decision making practices and procedures, for instance in our decision making relating to the opening of inquiries, where the Tribunal affirmed aspects of our approach and confirmed examples of mismanagement in charities that could be used as evidence by Commission officers. Management oversight of cases was tightened during the year as was executive and board oversight through our PILHRC committee, meaning that decision making was subject to regular review and challenge at progressive levels. Further controls will be implemented in 2016-17 as an outcome of our 'archetype' project to codify consistent evidence-based decision making for recurrent regulatory casework themes.

**Inability to meet the demands upon us as a regulator due to limited resources:** we improved the momentum of our casework through regular case reviews to ensure that we maintained end-to-end processes for resolving our regulatory interests. Resource needs were kept under close review with regular redeployment of staff to areas of greatest business need. We adopted measures to maintain appropriate levels of staff turnover. Several business units were restructured to match skills and resources to demands. Mapping some of our most important processes helped reduce reliance on unique or specialised posts. We continued our work streamlining processes and digitising high volume customer-facing processes, supporting this with programmes to train staff and promote changes to working culture. We launched an initiative designed to resolve longer-running inquiry cases without compromising our ability to tackle newer inquiries and those having the highest priority.

Looking ahead, 2016-17 will see the roll out of many initiatives from our change programme. This will require our workforce to adopt and embed new procedures and to embrace new technologies whilst maintaining operational performance. Our change and communications team is mitigating the risk of overload by ensuring that the implementation of initiatives is co-ordinated appropriately and that staff have space to assimilate the required changes.

Our business plan continues its prudent spotlight on our regulatory priorities and activities that only we as the regulator can perform. Increasingly we are focussing our attention away from activities which we can legitimately discontinue without diminishing our regulatory impact.

**Failure to deliver cost effective outcomes within our Transform programme:** we adopted a revised governance structure for the programme this year ensuring that arrangements for monitoring progress and maintaining budgetary control were robust. From December 2015 this included appointment of the COO as Programme Senior Responsible Officer (SRO) with day-to-day responsibility for delivery of the programme. Appointing SROs from within the business to be accountable for individual work streams improved buy-in and preparedness for change. Weekly progress reviews by senior executives and board members, regular meetings of the board oversight committee (Transform Project Oversight Committee, which moved from meeting monthly to bi-monthly from January 2016) and the programme delivery board all contributed to effective risk control. Risk registers for each workstream within the programme were updated each month by the SROs.

### Whistleblowing

Although there were no instances of whistleblowing by employees during the year, we kept procedures under review and promoted our whistleblowing procedure to staff early in the year. Board member Mike Ashley continued as our Whistleblowing Champion. Our annual whistleblowing report to the ARC confirmed that our procedures remain compliant with legislation and central Civil Service policy. At the close of the year we considered measures to be adopted in 2016-7 to reinforce the freedom staff have to speak up about concerns.

### Information security

For all public bodies, risks to information security remain a primary ongoing concern. We are continuing to monitor and assess our information risks in order to identify and address any weaknesses and ensure continuous improvement of our systems.

Our Director of Corporate Services is our Senior Information Risk Owner (SIRO). Supported by our Security Steering Group (SSG), the SIRO is responsible for ensuring that our procedures and systems properly support our duty to safeguard and protect information.

Our SSG met four times during the year, bringing together individuals responsible for data security and management from across the Commission. All reported losses of data were reviewed by the SSG which assessed the adequacy of actions taken to amend policy and practice or improve staff competence to prevent potential recurrences.

One breach of personal data required reporting to the Information Commissioner's Office (ICO) this year following unauthorised disclosure of a letter containing personal information to two third parties. As soon as we became aware of the breach we took appropriate steps to contain and rectify it and moved swiftly to implement measures to raise awareness and prevent further breaches of this nature, including enhanced management checks. Further developments to our caseworking procedures, due to be launched in 2016, will improve control over the risk of unauthorised disclosure of personal information. No further action in respect of this incident has been required by the ICO.

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	3
III Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0	0
IV Unauthorised disclosure	1	4
V Other	0	0
<b>Total</b>	<b>1</b>	<b>7</b>

The SSG considered other information security issues such as the implementation of changes to Cabinet Office policy, staff training needs and communications to raise awareness of data protection. Specific activities to enhance physical and data security have included:

- IT security assessments, including:
  - cyber risks, referencing government policy and guidance
  - NIST<sup>2</sup> 800 assessments of application security; these were commenced during 2015-16 with adequate outcomes and the remainder will be completed in the early part of 2016-17
  - weaknesses in existing accreditations and email services, which are being rectified through replacement of the desktop service in June 2016
- running a month-long security behaviours campaign with daily messaging and events to increase awareness and compliance with policy requirements
- planning revisions to business continuity arrangements to reflect and support new flexible working practices; revised business continuity and incident response plans will be in place in the early part of 2016-17
- our re-accreditation for access to the PSN was resubmitted in April in advance of our certificate expiring at the end of May; we are currently operating under the concessionary arrangements which allow for continued use of the PSN pending the outcome of the annual review process; the underpinning health-check was completed in March 2016 and identified a number of issues relating to the continued use of some older Windows 2003 servers which are currently being replaced, to be completed by August 2016
- testing our external web-applications in November 2015; we have addressed the issues identified, scheduling a re-test for June 2016 to allow our automated annual return from trustees to be included in the test scope
- completing full risk assessments using the NIST Risk Management Methodology as new applications are implemented; the new risk engine hosted on Amazon Web Services was completed successfully, while the assessment for our new desktop was carried out in June 2016 to support the migration away from our current provider

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2 National Institute of Standards and Technology.

Our limited internal resources supporting information governance were diverted to preparing millions of physical documents held in our Taunton office for permanent preservation prior to office relocation in January 2016. We have deferred until 2016-17 the launch of our new Knowledge and Information Strategy to enable the development of a new data model (a pre-requisite of the change programme). In the meantime, work is underway to enhance information asset management including development of revised policies and procedures for protecting and sharing information. We are currently recruiting information governance resources to assist delivery of this work.

### **Work of internal audit**

The Government Internal Audit Agency (GIAA) continued as our internal auditors. GIAA provided us with a report on their first External Quality Assessment, carried out by the Chartered Institute of Internal Auditors. ARC considered those findings and will monitor GIAA's progress in responding to recommendations for improving its effectiveness.

GIAA performed five audit assignments, reviewing our partnership working, financial controls, performance management, proactive regulation through the work of our Monitoring and Enforcement team and handling whistleblowing complaints about charities raised under the Public Interest Disclosure Act (1988). Each assignment received either a Moderate or Substantial assurance rating. As these are the two most positive ratings possible, we have taken assurance we are maintaining control of risks proportionate to our risk appetite and resources. We agreed 28 actions in response to internal audit's findings. None of these were designated as requiring urgent attention.

Overall, our chief audit executive has confirmed her opinion that I may take Moderate assurance about our arrangements for governance and risk control. This rating provides strong assurance while identifying specific improvements to enhance the effectiveness of our arrangements for governance, risk management and control.

### **External scrutiny**

In November 2015, our Chair and Director of Investigations, Monitoring and Enforcement gave oral evidence to the Public Administration and Constitutional Affairs Committee inquiry into 'Fundraising in the charitable sector'. A report was published following this inquiry in January 2016, largely focussed on the new fundraising regulator. The Commission continues to support its development. During the session in November, questions were also answered regarding a further Committee inquiry into Kids Company. The Committee issued a report entitled 'The collapse of Kids Company: lessons for charity trustees, professional firms, the Charity Commission, and Whitehall'. We responded formally in writing to the Committee's specific recommendations for the Commission in June 2016.

NAO have continued to monitor our significant achievements against the recommendations set out in their 2013 report and 2015 update. I assigned responsibility for monitoring our progress to the Director of Corporate Services. Internal quarterly progress reporting has been supplemented by informal dialogue to update NAO. We are expecting a formal follow up review by NAO in 2016-17.

## Compliance with the Code of Governance

The Code of Governance<sup>3</sup> provides helpful guidance to promote good governance in central government departments. As a non-ministerial department we recognise that many of the principles of governance good practice are helpful to us, particularly those relating to remit and accountability, although guidance relating to ministerial roles will not apply to us. In preparing my governance statement I have assessed our compliance with the Corporate Governance Code and I am satisfied that we have complied with the code insofar as it applies to a non-ministerial department with the Commission's specific constitution and governance arrangements.

### Accounting Officer's statement of effectiveness of internal control and assurance

As Accounting Officer, my review of the effectiveness of the system of control for 2015-16 has been informed by assurances and feedback from my executive directors through the system of internal accountability and escalation that I have established to support our system of delegations.

This is further supported by independent assurances from internal audit. I have placed reliance upon the chief audit executive's view that she is able to provide Moderate assurance over the risk management, control and governance arrangements relevant to the annual report and accounts and that there were no matters arising from the work of internal audit during the period that requires separate comment in this governance statement.

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<sup>3</sup> 'Corporate governance in central government departments: Code of good practice 2011'.

## Schedule of board and committee meetings during 2015-16

	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	6/6	100%			2/2	100%			10/11	91%		
Mike Ashley	5/6	83%	4/4	100%					9/11	81%		
Peter Clarke	4/4	100%	4/4	100%			6/7	85%	8/9	89%		
Tony Leifer	6/6	100%					8/8	100%				
Eryl Besse	6/6	100%			2/2	100%	1/1	100%	10/11	91%	2/2	100%
Gwythian Prins	5/6	83%	3/4	75%					11/11	100%	2/2	100%
Claire Dove	5/6	83%									1/2	50%
Orlando Fraser	5/6	83%			2/2	100%	6/8	75%			2/2	100%
<b>Independent committee members</b>												
Louise Rose					2/2	100%						
John Wood							6/8	75%	10/11	91%		
<b>Independent co-optee</b>												
Alan Downey			4/4	100%								

## 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 (£'000)		Bonus payment (£'000)		Pension benefits (£'000)		Total (£'000)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
William Shawcross CVO Chair	50-55	50-55	0	0	0	0	50-55	50-55
Paula Sussex Chief Executive	130-135	95-100 (125-130 full year equivalent)	0	0-5	51	36	180-185	130-135
Eryl Besse	20-25	15-20	0	0	0	0	20-25	15-20
Peter Clarke	10-15 (10-15 full year equivalent)	15-20	0	0	0	0	10-15	15-20
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	10-15	15-20	0	0	0	0	10-15	15-20
Professor Gwythian Prins	20-25	15-20	0	0	0	0	20-25	15-20
Mike Ashley	5-10	0-5	0	0	0	0	5-10	0-5

Directors	Fee/salary (£'000)		Bonus payment (£'000)		Pension benefits (£'000)		Total (£'000)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Sarah Atkinson Director	60-65	30-35 (60-65 full year equivalent)	0-5	0-5	34	18	95-100	50-55
Kenneth Dibble Director	105-110	50-55 (105-110 full year equivalent)	0-5	0-5	36	20	145-150	75-80
Michelle Russell Director	75-80	35-40 (75-80 full year equivalent)	0-5	0-5	50	18	130-135	55-60
Neville Brownlee Director	65-70	35-40 (70-75 full year equivalent)	0-5	0-5	19	70	90-95	105-110
Tracey Newman Director (from 13 April 2015 to 7 August 2015)	30-35 (95-100 full year equivalent)	0	0	0	0	0	30-35 (90-100 full year equivalent)	0
David Jones Director (from 20 April 2015)	80-85 (85-90 full year equivalent)	0	0	0	65	0	145-150 (150-155 full year equivalent)	0
David Holdsworth Director (from 1 December 2015)	30-35 (80-85 full year equivalent)	0	0-5	0	17	0	45-50 (95-100 full year equivalent)	0

	2015-16	2014-15
Highest earner's total remuneration (£'000)	130-135	130-135
Median total remuneration of all staff	30,382	27,819
Ratio	4.3	4.7

No other benefits in kind were paid to officials.

All board members serving in 2015-16 received a daily fee of £350 save for Orlando Fraser who gave his services on a pro bono basis. No pension contributions are paid.

In 2014-15 an internal restructure resulted in the directors being appointed. 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 2015-16, 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 2016 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31 March 2016 (£'000)	CETV at 31 March 2015 (£'000)	Real increase in CETV (£'000)
Paula Sussex Chief Executive	5-10	2.5-5	64	27	25
Sarah Atkinson Director	5-10	0-2.5	103	77	13
Kenneth Dibble Director	55-60 Plus 175-180 lump sum	0-2.5 Plus 5-7.5 lump sum	1,131	1,148	28
Michelle Russell Director	15-20	2.5-5	235	186	24
Neville Brownlee Director	30-35 Plus 40-45 lump sum	0-2.5 Plus 0 lump sum	537	479	15
David Jones Director (from 20 April 2015)	30-35	2.5-5	531	444	53
David Holdsworth Director (from 1 December 2015)	0-5	0-2.5	7	0	4

## 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 premium, classic plus and 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 members build up a pension based on pensionable earnings during his/her 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 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 3% to 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (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 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 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 or State Pension Age for members of alpha. (The pension figure quoted for officials shows 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 are available at [www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions).

New career average pension arrangements will be introduced from 1 April 2015 and the majority of classic, premium, classic plus and nuvos members will join the new scheme. Further details of this new scheme are available at: [www.civilservicepensionscheme.org.uk/members](http://www.civilservicepensionscheme.org.uk/members).

### **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 the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of the total membership of the pension scheme, not just the 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 2015-16.

## 2. Staff report

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

		31 Mar 2014	31 Mar 2015	31 Mar 2016
Staff on payroll	Number in post	304	288	306
Agency staff	Number in post	7	27	27
Workforce shape	Staff at pay band 3 and below	97	91	97
	Staff at pay band 4 and above, excluding SCS	203	191	203
	Senior civil servants	4	6	6
Workforce diversity	BME in full	4%	6%	7%
	Women	48%	51%	51%
	Disabled	11%	13%	14%
Attendance	Average working days lost	7 days	6 days	5 days
Civil Service People Survey	Engagement Index %	58%	53%	53%
Pay multiple	Ratio between highest and lowest paid	8.63	7.48	7.7

### Published sickness absence data

Our strategies targeted at minimising sickness absence resulted in a year end figure of five average working days lost, reducing in year by 0.3. Tackling workplace stress continued as a priority this year with new measures to promote health and well-being, coupled with support to enable managers to address sickness absence with confidence. Our stress risk assessment tool, based on guidance from the Health and Safety Executive, was used on several occasions during the year, including our first team stress risk assessment. All employees continue to have access to our confidential employee assistance programme.

### Consultation with staff

Maintaining communications with staff remained an important activity, more strongly accentuated as our change programme approaches the key implementation phase. During the year we created a Change and communications team responsible for our overall communications strategy. The team works closely with programme managers to ensure that we have a co-ordinated, manageable timetable for delivering change which is supported by targeted messaging.

During the year we held monthly meetings with the Departmental Trade Union Side (DTUS) to provide regular opportunity for formal and informal consultation and discussion on matters impacting staff. Each party may raise agenda items.

We issued regular news bulletins to staff this year and made good use of interactive online tools, including our new 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. Frequent open staff sessions on each site gave staff the opportunity to engage directly with me, the directors and board members to raise concern and offer their perspectives. We communicated the impact of central government reviews of spending to all employees with regular updates on performance throughout the year.

HR sent out regular reminders over the year advising on a range of pay and pension issues.

To recognise and incentivise contributions to our performance, we launched our new Stars (staff recognition) scheme this year which delivers non-pay awards to strong achievers at all levels of the workforce.

### **Improving organisational culture and employee engagement**

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. We are pleased that our staff engagement index improved from 53% to 55%. This reflects the completion of our new Directors' Group and the DG's focus on effective strong leadership. The commitment of all our staff has significantly increased our regulatory effectiveness in response to the disappointing report from the NAO in 2014 and the action taken following the previous survey, including a mid-year pulse survey of engagement and leadership, which enabled us to target areas for action. We recognise that we are on a journey and have set ourselves a target for improving our engagement index further.

The Commission is committed to maintaining effective employee relations, both directly between line managers and their staff, and indirectly between management and the departmental trade union. Our Chief Executive, directors and selected board members facilitate open staff sessions on each site regularly throughout the year to enable all staff to input ideas for improving the way we work and for consultation on key business/workforce issues. We meet with our unions monthly and we continue to maintain good employee relations during the period despite the considerable challenges of our Digital Transformation programme and increased work pressures as we work to deliver the best possible regulation within our small overall numbers.

We are committed to investing in staff training and development. We ran our first Talent Management programme in 2015-16 and are planning the first in-house Leadership programme for our senior leaders to help equip them to lead our Change programme in 2016-17. Our staff recorded 1,032 days (an average of 3.4 days each) learning across a wide range of areas including counter fraud; expert witness; FOI; whistle blowing; influencing skills; leadership; proof reading and project management/digital. We supported 18 staff to gain professional accreditation. We received excellent feedback on specialist training and in-house training delivered. Most generic training is now delivered centrally through Civil Service Learning (CSL). We have also introduced a network of Learning Champions across the Commission and with their help we want to ensure that all our staff access the learning and development they need.

### **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.

Our employment policies incorporate relevant employment law and good practice to ensure that the organisation does not discriminate against anyone who works for it or comes into contact with it. We monitor our workforce against diversity targets covering ethnicity, gender, disability, sexual orientation, age, religion and belief. We are pleased to note this year that our BME and disability profiles are increased from last year.

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.

### **Social and community issues**

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.

## 2.1 Staff costs (audited)

	2015-16			2014-15		
	Permanently employed staff	Temporarily employed staff	Total	Permanently employed staff	Temporarily employed staff	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	10,327	0	10,327	10,253	15	10,268
Social security costs	831	0	831	826	1	827
Other pension costs	2,062	0	2,062	1,911	3	1,914
Agency staff	0	2,697	2,697	0	923	923
Severance costs	168	0	168	402	0	402
(Decrease)/increase in IAS 19: employee benefits accrual	10	0	10	(17)	0	(17)
<b>Total</b>	<b>13,398</b>	<b>2,697</b>	<b>16,095</b>	<b>13,375</b>	<b>942</b>	<b>14,317</b>
Charged to Capital	(258)	(424)	(682)	(58)	0	(58)
<b>Total net costs</b>	<b>13,140</b>	<b>2,273</b>	<b>15,413</b>	<b>13,317</b>	<b>942</b>	<b>14,259</b>

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

The increase in agency costs mainly relates to specialist staff recruitment on short term contracts to deliver our Transform Programme (including IT contractors) of £1.9m

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. A 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 2015-16, employers' contributions of £1.474 million were payable to the PCSPS (£1.26 million in 2014-15) at one of four rates in the range 20.0% to 24.5% (16.7% to 24.3% in 2014-15) 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 2015-16 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 £589k were paid to one or more of a panel of three appointed stakeholder pension providers (£655k in 2014-15). Employers' contributions are age-related and range from 3% to 12.5% (3% to 12.5% in 2014-15) of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earnings from 1 October 2015. In addition, employers' contributions of £286 (£450 in 2014-15), 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees. One staff member (nil in 2014-15) retired early on ill health grounds. The total additional accrued pension liability amounted to £75669 (nil in 2014-15).

Contributions due to the partnership pension providers at 31 March 2016 were £51,096 (£56,058 in 2014-15). Contributions prepaid at that date were £nil (£nil in 2014-15).

## 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	2015-16	2014-15
	Number	Number	Number	Number
Commission staff	285	0	285	317
Agency staff	0	25	25	16
<b>Total</b>	<b>285</b>	<b>25</b>	<b>310</b>	<b>333</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 following table analyses these exits by cost bandings, (2014-15 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 (0)	0 (0)	0 (0)
£10,000 - £24,999	0 (0)	0 (0)	0 (0)
£25,000 - £49,999	0 (0)	3 (4)	3 (4)
£50,000 - £99,999	0 (0)	0 (3)	0 (3)
£100,000 - £149,999	0 (0)	0 (0)	0 (0)
£150,000 - £200,000	0 (0)	0 (0)	0 (0)
<b>Total number of exit packages</b>	<b>0 (0)</b>	<b>3 (7)</b>	<b>3 (7)</b>
<b>Total resource cost (£'000)</b>	<b>0 (0)</b>	<b>101 (371)</b>	<b>101 (371)</b>

## 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 2015-16

	£'000								2015-16	2014-15
	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	23,201	0	23,201	22,785	0	22,785	416	21,192	
- Capital	1.2	2,200	0	2,200	1,735	0	1,735	465	705	
<b>Annually managed expenditure</b>										
- Resource	1.1	360	0	360	(424)	0	(424)	784	(412)	
- Capital		0	0	0	0	0	0	0	0	
<b>Total budget</b>		25,761	0	25,761	24,096	0	24,096	1,665	21,485	
<b>Non-budget</b>										
- Resource	1.1	0	0	0	0	0	0	0	0	
<b>Total</b>		25,761	0	25,761	24,096	0	24,096	1,665	21,485	
Total resource		23,561	0	23,561	22,361	0	22,361	1,200	20,780	
Total capital		2,200	0	2,200	1,735	0	1,735	465	705	
<b>Total</b>		25,761	0	25,761	24,096	0	24,096	1,665	21,485	

### Net cash requirement 2015-16

	SoPS note	2015-16			2014-15
		Estimate	Outturn	Net outturn compared with estimate: saving/(excess)	Total outturn
		£'000	£'000	£'000	£'000
Net cash requirement	2	24,481	23,744	737	20,896

## Administration costs 2015-16

	Estimate	Outturn	2014-15 Total outturn
	£'000	£'000	£'000
	<b>23,201</b>	<b>22,785</b>	<b>21,192</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 12).

## Notes to the Statement of Parliamentary Supply

### SoPS 1. Net outturn

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

2015-16									2014-15	
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										
24,206	(1,421)	22,785	0	0	0	22,875	23,201	416	<b>21,192</b>	
24,206	(1,421)	22,785	0	0	0	22,875	23,201	416	21,192	
Annually managed expenditure										
Voted:										
Giving the public confidence in the integrity of charities										
0	0	0	(424)	0	(424)	(424)	360	784	(412)	
<b>Total</b>	24,206	(1,421)	22,785	(424)	0	(424)	22,361	23,561	1,200	20,780

#### SoPS 1.2 Analysis of net capital outturn by section (audited)

2015-16							2014-15	
Outturn				Estimate		Outturn		
			Gross	Income	Net	Net	Net total compared to estimate	Net
Spending in department expenditure limit								
Voted:								
Giving the public confidence in the integrity of charities								
			1,735	0	1,735	2,200	465	705
<b>Total</b>			1,735	0	1,735	2,200	465	705

## 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	23,561	22,361	1,200
<b>Capital outturn</b>	1.2	2,200	1,735	465
<b>Accruals to cash adjustments:</b>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation/amortisation		(850)	(703)	(147)
Revaluations		0	(1)	1
New provisions and adjustments to previous provisions		(500)	195	(695)
Auditors remuneration		(70)	(57)	(13)
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in trade and other receivables		0	150	(150)
(Increase)/decrease in trade and other payables		0	(165)	165
Use of provisions		140	229	(89)
<b>Net cash requirement</b>		<b>24,481</b>	<b>23,744</b>	<b>737</b>

**Parliamentary Accountability Disclosures (audited)**

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

There are no material contingent liabilities for the year.

**Paula Sussex**

Chief Executive and Accounting Officer

28 June 2016

## 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 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the 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 2016 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 2016 and of the Department's net operating cost 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 are 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 part 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

29 June 2016

# 7

## Resource accounts

### Contents

#### Financial Statements

Statement of Comprehensive Net Expenditure

Statement of Financial Position

Statement of Cash Flows

Statement of Changes in Taxpayers' Equity

Notes to the accounts

Glossary

## Statement of comprehensive net expenditure

For the year ended 31 March 2016

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 81 to 93 form part of the financial statements.

	Note	2015-16 £'000	2014-15 £'000
Operating income	5	(1,421)	(1,506)
<b>Total operating income</b>		<b>(1,421)</b>	<b>(1,506)</b>
Staff costs	3	15,413	14,259
Other administration costs	4	8,369	8,027
<b>Total operating expenditure</b>		<b>23,782</b>	<b>22,286</b>
<b>Net operating expenditure</b>		<b>22,361</b>	<b>20,780</b>

## Statement of financial position

As at 31 March 2016

The statement of financial position is a summary of all the Commission's assets and liabilities as at 31 March 2016.

The notes on pages 81 to 93 form part of the financial statements.

	Note	31 March 2016 £'000	31 March 2015 £'000
<b>Non-current assets:</b>			
Property, plant and equipment	6	730	632
Intangible assets	7	1,682	750
<b>Total non-current assets</b>		<u>2,412</u>	<u>1,382</u>
<b>Current assets:</b>			
Trade and other receivables	10	858	708
Cash and cash equivalents	9	737	589
<b>Total current assets</b>		<u>1,595</u>	<u>1,297</u>
<b>Total assets</b>		<u>4,007</u>	<u>2,679</u>
<b>Current liabilities:</b>			
Trade and other payables	11	(4,350)	(4,037)
Provisions	12	(2)	(426)
<b>Total current liabilities</b>		<u>(4,352)</u>	<u>(4,463)</u>
<b>Total assets less total current liabilities</b>		<u>(345)</u>	<u>(1,784)</u>
<b>Non-current liabilities:</b>			
Provisions	12	0	(1)
Staff exits	11	0	0
<b>Total non-current liabilities</b>		<u>0</u>	<u>(1)</u>
<b>Assets less liabilities</b>		<u>(345)</u>	<u>(1,785)</u>
<b>Taxpayers' equity:</b>			
General fund		(345)	(1,785)
<b>Total taxpayers' equity</b>		<u>(345)</u>	<u>(1,785)</u>

Paula Sussex  
Chief Executive and Accounting Officer

Date: 28 June 2016

## Statement of cash flows

For the year ended 31 March 2016

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 81 to 93 form part of the financial statements.

	2015-16	2014-15
Note	£'000	£'000
<b>Cash flows from operating activities</b>		
Total net operating cost	(22,361)	(20,780)
Adjustments for non-cash transactions		
Administration costs	4 777	728
Programme costs	4 (195)	(215)
Decrease in trade and other receivables	10 (150)	885
Decrease in trade and other payables	11 165	(612)
Use of provisions	12 (229)	(197)
<b>Net cash outflow from operating activities</b>	<u>(21,993)</u>	<u>(20,191)</u>
<b>Cash flows from investing activities</b>		
Purchase of plant, property and equipment	6 (459)	(415)
Purchase of intangible assets	7 (1,292)	(290)
<b>Net cash outflow from investing activities</b>	<u>(1,751)</u>	<u>(705)</u>
<b>Cash flows from financing activities</b>		
From consolidated fund (supply) - current year	<u>23,892</u>	<u>21,137</u>
<b>Net financing</b>	<u>23,892</u>	<u>21,137</u>
Net increase/(decrease) in cash in the period before adjustment for receipts and payments to the consolidated fund	148	241
Payments of amounts due to the consolidated fund	0	0
Net increase/(decrease) in cash in the period after adjustment for receipts and payments to the consolidated fund	<u>148</u>	<u>241</u>
Cash and cash equivalents at the beginning of the period	589	348
Cash and cash equivalents at the end of the period	<u>737</u>	<u>589</u>

## Statement of changes in taxpayers' equity

For the year ended 31 March 2016

The statement of changes in taxpayers' equity summarises the movement in the net worth of the Commission.

The notes on pages 81 to 93 form part of the financial statements.

	Note	£'000
<b>Balance at 1 April 2016</b>		<u>(1,785)</u>
Non-cash charges - auditor's remuneration	4	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		<u>(737)</u>
<b>Balance as at 31 March 2016</b>		<b><u>(345)</u></b>
<b>Changes in taxpayers' equity for 2014-15</b>		
		<b>£'000</b>
<b>Balance as at 1 April 2014</b>		<u>(1,958)</u>
Non-cash charges - auditor's remuneration	4	57
Net operating cost for the year		<u>(20,780)</u>
<b><i>Total recognised income and expense for 2014-15</i></b>		<b>(20,723)</b>
Net Parliamentary funding - drawn down		21,137
Net Parliamentary funding - deemed		348
Supply payable		<u>(589)</u>
<b>Balance as at 31 March 2015</b>		<b><u>(1,785)</u></b>

## Notes to the departmental resource accounts

### 1. Statement of accounting policies

These financial statements, which cover the accounting period 1 April 2015 to 31 March 2016, have been prepared in accordance with the government 'Financial Reporting Manual (FRoM)' issued by HM Treasury. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FRoM 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 following describes the particular policies adopted by the Commission. 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 FRoM 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 are stated at the lower of net current replacement cost and recoverable amount and are therefore reported at fair value. Where held at depreciated historical cost, this is regarded as a suitable proxy for fair value. On initial recognition, these assets are measured at cost, including any costs such as installation directly attributable to bringing them into working condition. Indexation rates are not applied to property, plant and equipment assets as the impact on the net book value of those assets would not be material.

#### 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. Intangible assets are therefore reported at fair value and where held at depreciated historical cost, this is regarded as a suitable proxy for fair value. Indexation is not carried out as it isn't 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. Fully depreciated assets are restated at a book value of £50.

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	5 years
Websites	5 years
Laptops	3 years

## 1.5 Impairments

The value of non-current assets is 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 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, 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 Principal Civil Service Pension Scheme (PCSPS) 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 -1.55% 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 relating to property dilapidations 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,

IFRS 16 Leases

### 2. Statement of operating costs by operating segment

For internal reporting purposes, the Commission operates two segments: firstly Commission core business, secondly the International programme, the Counter Terrorism programme and subleased buildings. The International and Counter Terrorism programmes 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 Commission and the International programme, Counter Terrorism programme and subleased buildings. The following note shows the amounts attributable to the two segments.

	2015-16			2014-15		
	£'000			£'000		
	Commission: core business	Other government funded projects and subleased buildings	Total	Commission: core business	Other government funded projects and subleased buildings	Total
Gross expenditure	22,361	1,421	23,782	20,778	1,508	22,286
Income	0	(1,421)	(1,421)	0	(1,506)	(1,506)
Net expenditure	22,361	0	22,361	20,778	2	20,780
Total assets	3,742	265	4,007	2,380	299	2,679
Total liabilities	(4,352)	0	(4,352)	(4,434)	(30)	(4,464)
Net assets	(610)	265	(345)	(2,054)	269	(1,785)

### 3. Staff Costs

	2015-16	2014-15
	Total	Total
	£'000	£'000
Wages and salaries	10,327	10,268
Social security costs	831	827
Other pension costs	2,062	1,914
Agency staff	2,697	923
Severance costs	168	402
(Decrease)/Increase in IAS 19: employee benefits accrual	10	(17)
<b>Total</b>	<b>16,095</b>	<b>14,317</b>
Charged to Capital	(682)	(58)
<b>Total Net Costs</b>	<b>15,413</b>	<b>14,259</b>

#### 4. Expenditure

	Note	2015-16 £'000	2014-15 £'000
Rentals under operating leases		1,077	1,404
Non-cash items:			
Depreciation	6	343	354
Amortisation	7	360	322
Revaluation/re-lived assets	6 & 7	1	(5)
Loss on disposal of fixed asset	6 & 7	16	0
Auditor's remuneration		57	57
Total non-cash items:		777	728
Other expenditure:			
Travel, subsistence and staff related costs		1,028	935
Accommodation		660	961
Office services		330	284
Contracted services/consultancy		460	310
Information systems and telephony		3,841	3,132
Specialist services		371	481
Losses and special payments		20	6
Increase/decrease in provisions		12	10
Provisions written back in year		(207)	(225)
<b>Total expenditure</b>		<b>8,369</b>	<b>8,027</b>

The total expenses relating to non-capital expenditure on the Transform Programme was £2.926 million (2014-15 £767k). The total expenses relating to consultancy was £60k (2014-15 £21k).

#### 5. Income

	2015-16 £'000	2014-15 £'000
Income received in respect of the International and Counter Terrorism programmes:		
from other UK government departments	1,062	1,011
from non-UK entities	0	0
Income received for rendering services to or on behalf of other UK government departments	359	495
Other income	0	0
<b>Total income</b>	<b>1,421</b>	<b>1,506</b>

## 6. Property, plant and equipment

	Information technology £'000	Furniture and fittings £'000	Leasehold improvements £'000	Total £'000
<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-lifed 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>
<b>2014-15</b>				
<b>Cost or valuation</b>				
At 1 April 2014	1,431	281	159	1,871
Additions	230	2	183	415
Re-lifed assets	5	0	0	5
Disposals	(17)	0	0	(17)
<b>At 31 March 2015</b>	<b>1,649</b>	<b>283</b>	<b>342</b>	<b>2,274</b>
<b>Depreciation</b>				
At 1 April 2014	1,040	224	41	1,305
Charged in year	289	22	43	354
Disposals	(17)	0	0	(17)
<b>At 31 March 2015</b>	<b>1,312</b>	<b>246</b>	<b>84</b>	<b>1,642</b>
<b>Net book value at 31 March 2014</b>	<b>391</b>	<b>57</b>	<b>118</b>	<b>566</b>
<b>Net book value at 31 March 2015</b>	<b>337</b>	<b>37</b>	<b>258</b>	<b>632</b>

All assets are owned by the Commission. There are no assets held under finance leases (nil in 2014-15).

## 7. Intangible assets

	Databases and Management Systems £'000	Websites £'000	Licenses £'000	Assets under construction	Total £'000
<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>
<b>2014-15</b>					
<b>Cost or valuation</b>					
At 1 April 2014	7,617	70	0	594	8,281
Additions	64	0	0	226	290
Transfers	689	0	0	(689)	0
Disposals	(908)	(42)	0	0	(950)
	0	0	0	0	0
<b>At 31 March 2015</b>	<b>7,462</b>	<b>28</b>	<b>0</b>	<b>131</b>	<b>7,621</b>
<b>Amortisation</b>					
At 1 April 2014	7,451	48	0	0	7,499
Charged in year	317	5	0	0	322
Disposals	(908)	(42)	0	0	(950)
<b>At 31 March 2015</b>	<b>6,860</b>	<b>11</b>	<b>0</b>	<b>0</b>	<b>6,871</b>
<b>Net book value at 31 March 2014</b>	<b>166</b>	<b>22</b>	<b>0</b>	<b>594</b>	<b>782</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>

All intangible assets are owned by the Commission. There are no intangible assets held under finance leases (nil in 2014-15). Assets under construction represent expenditure on IT developments.

The aggregate amount of £985k has been recognised as research and development expenditure during this period

## 8. Capital and other commitments

### 8.1 Capital commitments

As at 31 March 2016, the Commission had no capital commitments (nil as at 31 March 2015).

### 8.2. Operating leases

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

	2015-16 £'000	2014-15 £'000
<b>Obligations under operating leases comprise:</b>		
<b>Buildings</b>		
Not later than one year	679	1,052
Later than one year and not later than five years	1,162	1,694
Later than five years	0	0
	<u>1,841</u>	<u>2,746</u>

The Commission holds leases on four sites where rent is calculated on floor area utilised and is payable on a quarterly basis. All leases expire within the next five years.

## 9. Cash and cash equivalents

	2015-16 £'000	2014-15 £'000
Balance at 1 April	589	348
Net change in cash and cash equivalent balances	148	241
<b>Balance at 31 March</b>	<u>737</u>	<u>589</u>
<b>The following balances at 31 March were held at:</b>		
Government banking services	737	589
Cash in hand	0	0
<b>Balance at 31 March</b>	<u>737</u>	<u>589</u>

The Commission holds no cash equivalents.

## 10. Trade receivables, financial and other assets

	2015-16 £'000	2014-15 £'000
<b>Amounts falling due within one year:</b>		
VAT	274	207
Deposits and advances	0	3
Other trade receivables	177	56
Prepayments and accrued income	407	442
	<u>858</u>	<u>708</u>

## 11. Trade payables and other current liabilities

	2015-16	2014-15
<b>Amounts falling due within one year:</b>	£'000	£'000
Taxation and social security	260	251
Trade payables	1,188	705
Other payables	4	5
Staff exit costs	238	1,337
Accruals and deferred income	1,923	1,150
Amounts issued from the Consolidated Fund for Supply but not spent at year end*	737	589
	<b>4,350</b>	<b>4,037</b>
<b>Amounts falling due after more than one year:</b>		
Staff exit costs	0	0
<b>Total trade and other payables</b>	<b>4,350</b>	<b>4,037</b>

\* For the purposes of the cash flow statement, movements in these figures are excluded.

## 12. Provisions for liabilities and charges

	Early departure costs	Property dilapidation	Legal costs	Total 2015-16	Total 2014-15
	£'000	£'000	£'000	£'000	£'000
Balance at 1 April	16	400	10	426	838
Provided in year	12	0	0	12	10
Provision utilised in year	(26)	(203)	0	(229)	(197)
Provision written back	0	(197)	(10)	(207)	(225)
<b>Balance at 31 March</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>426</b>

The Commission negotiated a reduced dilapidations settlement in relation to the original estimate.

### 12.1 Analysis of expected timing of cash flows

	Payment by 31 March 2017	Payment after 1 April 2018	Total
	£'000	£'000	£'000
Early departure costs	2	0	2
<b>Total</b>	<b>2</b>	<b>0</b>	<b>2</b>

### 12.2 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.

### **12.3 Property dilapidation**

All held provisions for dilapidations on our current Taunton office were either utilised or written back in 2015/16, in line with the expiry of the lease.

### **12.4 Legal**

The Commission had no material legal commitments or liabilities as at 31 March 2016.

### **13. Contingent liabilities**

The Commission has no contingent liabilities judged to be probable or material at 31 March 2016 (nil as at 31 March 2015).

### **14. Related party transactions**

During the year 2015-16, 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 Valuation Office Agency, the HM Treasury Group and the Charity Commission for Northern Ireland. All transactions were undertaken on arm's length terms.

### **15. 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.

The result of the referendum held on 23 June 2016 was in favour of the UK leaving the European Union. This is a non-adjusting event with no financial impact on the Charity Commission.

## Glossary

### 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.

### **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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