

## governance of academy trusts fails to prevent conflicts of interest

An independent report has described conflicts of interest in academy trusts as 'common' and the checks and balances intended to prevent them as 'weak'. 'Conflicts of Interest in Academy Sponsorship Arrangements', which was co-authored by the London Centre for Leadership in Learning and the Institute of Education and presented to the Education Select Committee in September 2014, also makes recommendations for minimising conflicts of interest.

According to the report, potential causes of real or perceived conflicts of interest can include academy trust board members personally benefitting from procurement decisions and sponsorship arrangements that limit a trust to only use a sponsor's services. Other types of conflict that may occur in academy trusts are identified as intangible conflicts that do not involve money, and conflicts arising in the wider system, for example where a Department for Education (DfE) broker is also working for a trust.

While the report recognises that procedures for guiding and regulating how academy trusts manage conflicts have improved since 2010, it goes on to describe the checks and balances as 'still too weak'.

In particular, auditing bodies may have insufficient skills or capacity to investigate trusts fully, and trust boards are failing to adhere to national guidance or mitigate the risks of conflict. The report also describes the rules governing conflicts of interest in academy trusts as 'insufficiently robust', and the mechanisms to identify and address intangible conflicts as almost 'non-existent'.

Failure to comply with guidance and mitigate risk is particularly apparent among smaller emerging academy trusts, which generally have weaker finance, audit and governance procedures than their larger counterparts.

In conclusion, the report sets out four recommendations to minimise conflicts of interest.

The recommendations include a review of the arrangements that allow services to be sold to academies on an 'at cost' basis, a review of the arrangements for the new Regional Commissioners and Head Teachers Boards and if they will result in sufficient controls on conflict of interest in academy trusts. The report also recommended a review of the regulations for governance of trusts.

The report also endorsed three recommendations made by the Public Accounts Committee (PAC). The PAC recommendations include introducing a fit and proper person test for academies and trusts and developing a strategy for enforcing compliance with funding agreements.

The report is available in full at: <http://bit.ly/1rTTYyD>



**Solutions**



**Problems**

## charities urged to report serious incidents

The Charity Commission has issued an alert to urge charities in England and Wales to report any suspected or confirmed serious incidents. Serious incidents are defined as events which risk or result in major problems, such as significant loss to a charity's money or assets, or damage to a charity's work, property, reputation or beneficiaries.

Examples of significant incidents include fraud, theft, large donations from unverified sources or mistreatment of vulnerable individuals supported by the charity. Other risks which should be reported include suspected links between the charity and illegal organisations, the absence of a procedure to check out prospective trustees or staff, and any suspected criminal activity involving the charity.



The number of serious incidents reported has increased significantly, from 970 in 2012/13 to almost 1,300 in 2013/14. However, the Commission has discovered further cases where incidents had not been reported, and the true extent of the risks charities are facing is not yet known.

Any actual or suspected incidents should be reported by trustees to the Commission as soon as they are discovered, even if the police or other regulators have already been informed. Any charity trustees who are required to file accounts must also declare unreported serious incidents when

they complete their annual return, as failure to do so is a criminal offence under the Charities Act 2011.

Michelle Russell, Head of Investigations and Enforcement at the Charity Commission, said: "We see cases where charities experience more serious problems down the line, including reputational damage, in part because trustees failed to report an incident to us in good time. So my message is: don't compound the problem that has occurred, help solve it by reporting it to the Commission." The alert can be viewed at: <http://bit.ly/ZmD16f>

## primary schools encouraged to become academies

All primary schools should be converted into academies, according to a report published by Policy Exchange. Currently 56% of secondary schools have taken up academy status, while only 11% of primary schools have become an academy.

The report 'Primary Focus' claims that this would be the most effective way to ensure that teachers and schools are able to cope with challenges brought about by new minimum standards for reading, writing and maths which will be introduced in 2016.

Provisional results for 2014 indicated that there is a continuing rise in standards in numeracy and literacy among 11-year-olds. However, too many pupils leaving primary school are not ready to move on to secondary school. The Coalition

responded to this by introducing a new national curriculum that requires schools to take responsibility for monitoring pupil performance and progress. However, this will place challenges on smaller schools, and it is estimated that one in five schools will fail to meet the new standards by 2016.

The new minimum standards in reading, writing and maths could see over 3,000 primary schools (20%) fall below expectations. This will result in a continued drop in local authority funding for primary schools, a number of head teachers retiring, and an added pressure on teachers as a result of the new national curriculum.

The report also recommends that by 2020, all primary schools should join an academy chain and local authorities should set up and run

their own chains. An academy chain is a group of academies run by the same academy trust. Although obtaining academy status may not resolve all of the problems, it will allow teachers and head teachers to spend less time on administration, and more time on teaching and learning in the classroom.

To read the report in full go to: <http://bit.ly/1tv2rGp>



## in brief..

### **Commission issues reminder to charities in the red**

Charities in England and Wales with net current liabilities are being reminded to address the associated risks in their Trustees' Annual Report (TAR). Almost 1,350 charities reported a net current liability in their latest TAR, according to a report published by the Charity Commission in August 2014. Of the 98 charities selected at random, almost half had wasted an opportunity to explain how the associated risks are managed by failing to highlight them in their TAR or accounts. The report also revealed that most charities with net current liabilities were funding them with deferred income, or by bank loans and overdrafts.

Read more about the Commission's reminder at: <http://bit.ly/1rTTdp4>  
The report is available in full at: <http://bit.ly/ZPOJHb>

### **Reassurance sought from HMRC on bulk mailing VAT**

The Charity Tax Group (CTG) has asked HM Revenue and Customs (HMRC) for 'urgent reassurance' that it will not be bringing retrospective claims for VAT on single-sourced mail services. The request for reassurance came after the Direct Marketing Association (DMA) received a letter from HMRC indicating that these services are standard-rated. Many charities have chosen to source mail services from a single supplier since VAT on bulk mailing was introduced in April 2012, and the CTG claims that HMRC has historically agreed to zero-rate single-sourced mail services as a composite supply. According to CTG Chair John Hemming, retrospective claims would result in charities that have engaged in single sourcing facing "a large VAT bill", with one charity estimating that it could face a bill for up to £700,000. Read more about this story at: <http://bit.ly/1vJXMml>

### **Local charities more likely to receive donations than national charities**

TheGivingMachine's latest Giving Opinions survey has revealed that more people would prefer to support a local charity instead of a national one working for the same cause. While 77% of the survey's respondents said that they would prefer to support a local charity, 95% said it was important for charities to be transparent about how they spend money donated to them. Reasons provided by survey respondents for preferring to support local charities included the fact that it was easier to see the benefit of donations, and donors could more easily get involved with the charity. The survey also revealed that donors believed that donations to smaller charities were more likely to be spent on the charitable cause rather than the cost of running the charity.

Read more about the survey results at: <http://bit.ly/1BM7hn5>

### **No charge for charity registration in Northern Ireland**

Charities in Northern Ireland can complete their compulsory registration with the Charity Commission for Northern Ireland (CCNI) free of charge, according to CCNI Chief Executive Frances McCandless. In December 2013, compulsory registration of charities was introduced by the CCNI. By September 2014, 308 charities had already been registered, and a further 674 were under consideration. It is expected that all charities will be registered within three to five years. Rumours about charities having to pay to complete registration were dispelled by McCandless, who stated: "the commission does not charge a registration fee for any organisation applying to register." Further information about the free registration process is available at: <http://bit.ly/1q9n8pv>

### **Charities only spending 2% of budget on online advertising**

A new report by nfpSynergy suggests that charities rely on online advertising less than other sectors of industry. The report 'Ad Infinitum' found that only 2% of the charity sector's combined advertising budget of £395 million was spent on online adverts in 2013, compared with 46% across all other sectors. However, online advertising spend by charities is slowly increasing, up from 1% of all advertising spend since 2006. The report also found that charities spent 61% of their advertising budgets on direct mail in 2013, and their spend on television advertising rose from 8% in 2006 to 20% in 2013.

Read more about the report at: <http://bit.ly/ZrJYme>

### **DFID launches new funding finder tool**

A new tool has been introduced to help organisations such as charities and Non-Governmental Organisations (NGOs) to create a shortlist of relevant funds they can apply for. The tool, which was launched by the Department for International Development (DFID), features a range of search options to find suitable funds, including searching by country, industry sector, value of funding, and type of organisation eligible to apply. It is also possible to generate a list of all funds, or to filter by whether funds are open or closed. Funding listed by the tool includes grants, funds and business support offered by DFID specifically for international development work. This reflects the fact that the primary aim of DFID is to fund international projects targeting extreme poverty. The tool replaces the previous 'funding opportunities' page. Visit: <http://bit.ly/1wir0cU>

# cap lifted on dividends for CIC stakeholders

Community interest companies (CICs) now have greater freedom to determine the value of dividends each stakeholder receives, under new regulations which were introduced on 1st October 2014.

Previously, a cap on dividends was in place which stipulated that CICs could not pay dividends to a shareholder that were worth more than 20% of their shares in any one year. A joint consultation by the Office of the Regulator of Community Interest Companies, the Department for Business, Innovation & Skills and HM Treasury, carried out in 2013, has led to the new Community

Interest Company (Amendment) Regulations 2014 coming into force, and the cap per stakeholder being lifted. However, the maximum amount that a CIC can pay out in dividends will remain at 35% of distributable profits.

Around 25% of CICs operate as companies limited by shares. Before the new CIC regulations came into force, the level of investment in CICs may have been unable to reach its full potential, due to shareholders getting limited returns on their investment. The complexity and restraints under the previous regulations have led to some CICs seeking alternative business structures, such as creating companies limited by guarantee instead of by shares.

The new CIC regulations will mean that both investors and the community can benefit more from CIC profits. Social investment tax relief guidelines were introduced in April 2014 and could increase the numbers of individuals registering CICs and encourage investment. Proprietors of existing CICs who would like to benefit from the new regulations will need to remove the dividend restriction from their articles of association before the change can be implemented.

To find out more about the new regulations, go to:

<http://bit.ly/1yJx7vZ>

And:

<http://bit.ly/1q9nOez>



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## new social investment power for charity trustees recommended

The Law Commission has proposed the introduction of a new statutory power for charity trustees to make social investments, in a list of recommendations concerning charitable social investment published in September 2014. This new power for charity trustees was originally proposed by the Commission as part of a three-month consultation into social investment by charities, which ran from April to June 2014. Almost all consultation respondents agreed with the proposal.

As proposed by the Commission, the power to make social investments would complement rather than replace charity trustees' existing powers. The definition of 'social investment', which respondents emphasised should be 'broad but clear', would allow investments that break even, or result in a negative return, to be classed as social investments, as well as investments that take the form of a guarantee. An investment would also have to further one or more of the charity's

objects to satisfy the proposed definition. The power to make social investments would automatically apply to charity trustees, subject to their charity's governing document.

The Commission also set out duties to apply to charity trustees' who have the power to make social investments, which would replace their investment duties under the Trustee Act 2000 in certain circumstances. Before making a social investment, a trustee would have to be satisfied that it is in the best interests of the charity to do so, having regard to the expected mission benefit and financial return, and must consider taking advice. An ongoing duty requiring trustees to review the charity's social investments and consider varying them 'from time to time' would also apply.

Read more about the proposed new power at: <http://bit.ly/1pL055U>

The Commission's list of recommendations is available at: <http://bit.ly/ZbjN2F>