

GIVING
CONFIDENCE
in charities

Annual report 2001–2002 (Part 1)

Aim

To give the public confidence in the integrity of charity

Vision

To provide the best possible regulation of charitable activity in England and Wales. Our vision is of a charity sector which:

- meets the needs of potential beneficiaries effectively;
- is helped in this by the legal, accounting and governance frameworks of which the Commission has stewardship;
- keeps pace confidently and competently with the pace of change in society, the economy and the needs of beneficiaries;

and in which the commission's activities and influence:

- contribute powerfully to all the above through advice, support and effective and visible supervision;
- encourage and where necessary enforce compliance with core regulatory requirements; and
- prevent mismanagement and abuse wherever that is possible and remedy it promptly and effectively where it is not.



INVESTOR IN PEOPLE

Values

Integrity: We will show impartiality, fairness, independence and honesty in everything we do.

Professionalism: We will show high professional standards and provide a cost-effective service. We aim to get it right first time and be prompt, courteous and constructive in all our dealings. We are committed to continuous improvement and will seek to learn both from the things we do well and the things we do less well.

Openness: We are accountable to the public, Parliament and the Courts. We aspire always to be open and approachable and always to present a human face.

Customer Service: We are dedicated to giving an excellent service to our customers, including charities, their beneficiaries and the public. We pride ourselves on being accessible to the community in all its diversity.

Modernising: We are committed to being a forward-looking Commission, enabling and encouraging charities to modernise in step with society's needs and expectations. We will exploit new technology so that our service keeps pace with changing needs.

Valuing our people: All our staff are important and we value their skills, knowledge and diversity. We are committed to providing leadership, keeping people informed, promoting a balance between work and home life and developing skills.

Partnership: We are committed to working together with charities, with all their and our stakeholders, with other government departments and agencies and within the Commission.

REPORT OF THE CHARITY COMMISSIONERS FOR ENGLAND AND WALES

for the year ending 31 March 2002

Presented pursuant to the Charities Act 1993, s1(5)

To the Secretary of State for the Home Department

July 2002

Sir,

We, the Charity Commissioners for England and Wales, have the honour to make our Report for the year 2001/2002 in pursuance of section 1(5) of the Charities Act 1993.

J Stoker

Chief Charity Commissioner

M Carpenter

D Taylor

D Unwin

J Unwin

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CHARITIES PROFILE

- There are 185,948 charities on the Register (of which 161,200 are 'main' charities; the remainder are subsidiaries or branches of other charities)
- The total annual income of all registered main charities exceeds £26billion
- Approximately 6% of charities receive nearly 90% of the total annual income recorded
- The largest 393 charities attract over 43% of the total annual income
- The estimated value of the total assets of registered charities is over £70billion
- There are an estimated 1.1million charity trustees
- It is estimated that the charitable sector employs 563,000 paid workers – representing 2.2% of the total UK workforce¹
- It is estimated that unpaid charitable work in relation to direct service activities is valued at over £8.1billion, fund-raising £6.6billion, and administration £790million¹

Our role

'Our aim is to give the public confidence in the integrity of charity.'

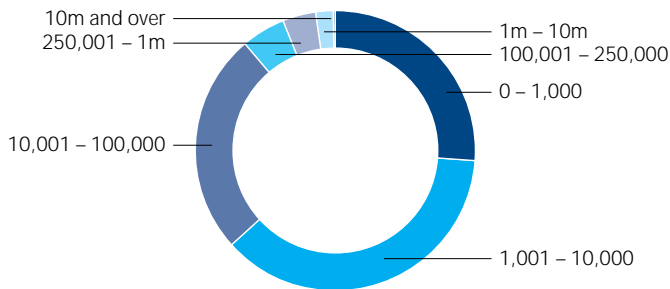
We are pursuing three main objectives:

- ¹ To ensure that charities are able to operate for their proper purposes within an effective legal, accounting and governance framework.
- ² To improve the governance, accountability, efficiency and effectiveness of charities.
- ³ To identify and deal with abuse and poor practices.

¹ The UK Voluntary Sector Almanac 2002

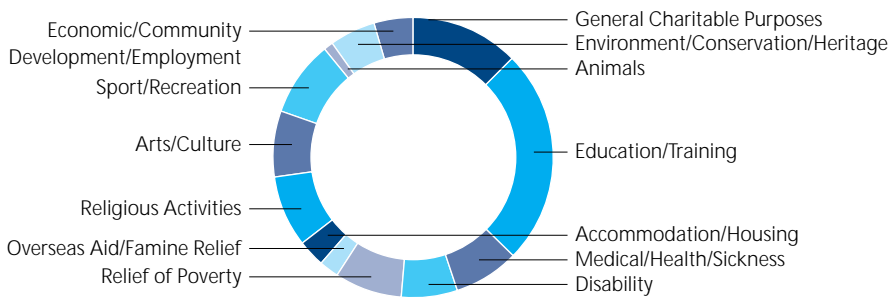
PROFILE OF THE REGISTER OF CHARITIES

Breakdown of registered charities by annual income (£)

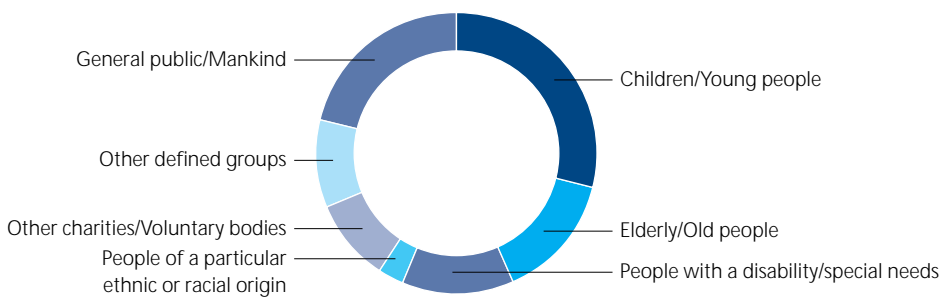


Profile of the register based on classification

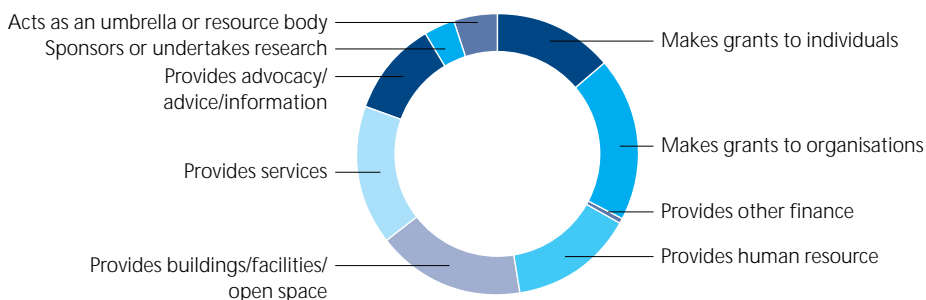
What (Purpose)



Who (Beneficiaries)



How (Method of operation)



KEEPING PACE WITH CHANGE

Introduction by the Chief Commissioner

It has become a tradition in recent years for the Commission to rise to the challenge of embracing change. This year has been no exception. The Commission is modernising at a dramatic pace and, as a result, it has changed considerably in recent years.

This year has been a challenging period in which we faced the close scrutiny of the National Audit Office (NAO) and Public Accounts Committee (PAC) whilst laying the building blocks for developing the Commission and contributing towards the Performance and Innovation Unit's study of the charitable and voluntary sector. The changes required to meet these challenges all had to be achieved without compromising the high standards of performance and customer service we have already established and by the flexible use of existing resources.

A new vision

The year began, appropriately, with the launch of our new Vision and Values statement. This vision is a blueprint for the way we want to work in the Commission and is intended to complement our Aim and Objectives. It

does not replace our legal duties under the Charities Act 1993, nor our well-established aim of giving the public confidence in the integrity of charity. The Commission has become increasingly proactive in its work and, with the additional resources we will receive in the next reporting year, we will be contributing even more to the development of the charitable sector that our vision describes. The Vision and Values statement helped set the tone for what we wanted to achieve in the year and puts in context the ambitions on which we hope to deliver.

Developing the Commission

Our Commission Development Programme is our own agenda for change, which we consulted publicly on in May. It features an expanded range of tailored services for different types of charity. It is designed to meet the increased service provision to charities and the public for which the Commission receives an extra 20% funding in April 2002, as agreed by HM Treasury. After static funding for 6 years, we were pleased to receive this additional funding. Changes for next year include:

- a new series of practical and challenging regulatory reports on the state of England and Wales' charities;

- review visits to 600 charities;
- increasing the number of investigations we undertake;
- a new unit in Taunton serving charities in Wales;
- a new special unit for small charities;
- targeted outreach and education work;
- improvements to our Contact Centre, together with website development and eGovernment initiatives.

These developments, and others, are part of our Vision and Values commitment to enable, and where necessary, enforce charities' compliance with appropriate legislation, provide services in ways that are accessible and relevant to those that need them and to work, with others, to reduce unnecessary regulatory burdens (particularly on small charities) and to improve standards of performance in the sector.

Our challenge next year will be to deliver on the anticipated improvements.

Under the microscope

The Commission is a learning organisation. Before moving forward

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on our Commission Development Programme it was useful to pause for a moment to reflect upon where we had got to and how, and what we could learn from our experiences. The report by the NAO on the Commission's activities was therefore a welcome, if demanding, exercise. The NAO's acknowledgement in their report of the progress the Commission had made, in challenging circumstances, since their last report was encouraging. We drew strength from the fact that many of their recommendations for further development mirrored our own. The achievement of 7 out of our 9 Key Performance Indicators this year whilst knitting in all the changes arising from our Commission development work is testament to the hard work and dedication of our staff, to whom I sincerely offer my heartfelt thanks.

In November, following publication of the NAO's report, I appeared in front of Parliament's Public Accounts Committee with our Director of Operations, Simon Gillespie, to answer questions about the Commission's activities.

PAC hearings are intended to look searchingly at an organisation. So,



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integrity of charity



the hearing inevitably focused on areas for further improvement in the light of the NAO's report. We look forward with interest to the PAC's report, expected in the summer.

We know that we have not found the solution to every problem but we are committed to delivering value for money and a first-class public service. We are looking carefully at how the NAO's recommendations can help with this. We accept that there is no room for complacency, and that there is still more work to do, but we are confident that we have a firm

foundation on which to take the recommendations forward.

An ever changing world

The shocking events of September 11th will have convinced us all that nothing can be taken for granted. We are pleased that we were able to act quickly in registering the World Trade Centre Disaster Fund, 3 days after the event happened, to ensure that much needed assistance could be given to those affected by the disaster as soon as possible. The role of charities is such that they inevitably find themselves at the centre of such

world shattering events and it is the ability of charities to respond and adapt to significant changes in society that characterises the diverse and changing nature of the sector. As regulator of that sector, we need to respond to those changes, and adapt and change as well.

The independence of the voluntary sector is vital to its continuing ability to respond flexibly to meet the needs of society and we recognise that the organisation of the voluntary sector is a matter for the voluntary sector alone. But any system, however well-

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established, can benefit from review in the light of modern needs and circumstances. This applies to the system of charity law and regulation itself, as well as to individual charities and organisations. We therefore welcome the Government's decision that the Performance and Innovation Unit should carry out a review, to look at what type of legal and regulatory framework will enable charities, and the voluntary sector, to thrive and contribute to national life.

We share concerns that the system should enable new charitable organisations to set up, and existing ones to flourish. I believe our decision this year to recognise as a new charitable purpose the promotion of community participation in healthy recreation by the provision of facilities for playing sport, which provided community amateur sports clubs the opportunity to apply for charitable status for the first time, illustrates our genuine commitment to this sort of change. We have been working closely with the PIU team carrying out the review, including my membership of the PIU Advisory Group and the secondment of one of our senior staff to the PIU team undertaking the review. We will continue to be an

active contributor to the search for improvements, as the PIU takes forward its findings, and assist in the development of any new legislation that may result.

A few hellos and goodbyes

On a personal note, I would like to take this opportunity to say farewell to two of my Board colleagues, Professor Jean Warburton (one of our Commissioners) and Richard Carter (our Director of Policy) who left the Commission this year. I wish them well in their future work. I would also like to take the opportunity to welcome David Unwin QC, who joined us as a Commissioner, and Rosie Chapman, our new Director of Policy.

Where to next?

Looking forward to next year, we will be seeking to ensure that the Commission's resources are targeted more effectively on areas of risk and opportunity. It will be time to deliver on areas that we have been piloting this year in our Commission Development Programme when the long-promised additional resources make this possible. We will be looking to increase our capacity to monitor the propriety of charities' finances, governance and administration and their compliance

with charity law. We will look for ways to improve our ability to identify abuse and mismanagement of charity assets and increase the number of remedial and preventative interventions we initiate. We will continue to play our part in ensuring that the interpretation of charitable status keeps pace with the changing needs and aspirations of society. We will do what we can to enable the charitable sector to operate more efficiently and effectively by disseminating guidance on best practice and ensuring that the demands we place on charities are proportionate in terms of risk. We will continue to embrace the Government's modernising agenda and move with the times to conduct more of our business electronically. And, importantly, we will be looking for ways to meet our obligations under the Race Relations Amendment Act 2000 and be more inclusive in the way we work. Valuing diversity is central to our strategies and priorities for next year. Our Race Equality Scheme, scheduled for publication in May 2002, will set out our strategy for how we will promote race equality throughout the Charity Commission.

The coming year promises to be as interesting and demanding as the last.



John Stoker
Chief Charity Commissioner



WE AIM TO
PROVIDE the
best possible regulation of charitable
activity in England and Wales

DEVON SHELTERED HOMES TRUST

This charity was responsible for running Bystock Court, a residential care home for people with learning disabilities, based in Exmouth. We were aware that Devon Social Services were very concerned about the management of the home when it came to light that residents at Bystock Court had made complaints which had not been dealt with satisfactorily by the management. On investigation of these complaints Devon Social Services became aware of a number of serious concerns relating to the overall management of the home, including the structure, recruitment policy and employment of staff. We investigated this immediately. We appointed an interim manager to secure the charity's assets and to minimise any disruption to residents. Dennis Taylor, Chief Executive of Devon Community Housing Society (a major provider of care services in the area) was appointed and immediately made progress reviewing and improving management procedures at the home. Following discussions with the new trustees they agreed that it would be in the best interests of the charity if Devon Community Housing Society permanently took over the running of the charity.

We are pleased that the charity has been able to continue to operate under its new management. The quality of services provided by the charity has greatly improved and recent inspections have resulted in very positive reports.

AN EFFECTIVE REGULATOR

Our regulatory approach

Many of the Commission's functions are judicial. But the Commission is much more than 'a judge without his wig'. Our judicial functions, though significant, form part of a much wider regulatory role. This goes beyond minimum legal requirements to the encouragement of continuous improvement in the governance, accountability, efficiency and effectiveness of charities.

We see our activities as part of one regulatory whole. When we register, advise or monitor a charity, part of our concern is to see that problems do not arise, and that those that can't be avoided are spotted and remedied, with our help, before they become serious.

When we intervene with remedial powers, the aim is to end up with a healthy and effective charity, just as much as when we are giving advice and support to charities where all is well. Our experience in remedial work feeds directly into the guidance that we give charities on avoiding trouble and improves our understanding of what we should be monitoring and how.

A risk based approach

The effectiveness of our regulatory approach means providing appropriate regulation along a regulatory continuum, from cradle to grave. This means knowing when to guide, when to encourage and when to censure. Providing an appropriate level of regulation for all charities means taking a risk based approach according to the size of the charity and ensuring that the Commission's own resources are targeted to best effect.

Charities with an income below £10,000pa make up two-thirds of the charity register. Collectively they contribute enormously towards the total charitable endeavour in the UK and make a considerable impact in their local communities. Individually those charities have limited resources and rely heavily upon the goodwill of volunteers. Like all charities, they must be transparent and accountable to us and the general public, but we do not wish to overburden them with unnecessary regulation. This year, we put in place arrangements to establish a specialised unit in our Liverpool office to deal with smaller charities in England. This dedicated unit, which comes online later this year, will be

able to provide services to those charities in a quick and cost effective way. Our new Welsh unit in Taunton deals with smaller charities in Wales. We are also currently reviewing our policies and procedures to ensure that our regulatory approach is suitable for these smaller charities. We will publish guidance on this in due course.

For larger charities, the emphasis is placed on providing a more individual service. We focus on building customer-led relationships with these charities to highlight areas of potential risk.

In the case of medium sized charities, we piloted this year a new Review Visits programme. These Review Visits have been aimed principally, but not exclusively, at charities with annual incomes between £0.25m and £10m. The Review Visits seek to enhance public confidence in charities by encouraging better methods of administration, identifying good and poor practice, and serving to recognise and improve badly-run charities. By working in partnership with charities in this way, we will endeavour to ensure that problems do not arise in the first place.

We see our activities as part of one regulatory whole. When we register, advise or monitor a charity, part of our concern is to see that problems do not arise, and that those that can't be avoided are spotted and remedied, with our help, before they become serious.

We have also developed a more sophisticated regulatory approach towards large charities (ie those with an annual income over £10m and/or assets worth over £100m). We are proactively engaging with large charities, and responding more quickly when we hear that they may be having difficulties, to offer assistance where appropriate. Our guidance on risk management, outlined later in this report, is an example of this new approach.

At a time when the Commission and the voluntary sector as a whole are increasingly under the public spotlight, these changes are designed to give better service and value for money, target risk, and manage resource demands. This bespoke approach to business will enable us to provide a higher standard of service by targeting areas where the needs are greatest.

Regulation from cradle...

Our regulatory relationship with charities starts with the registration process itself. This year we registered 5,199 new charities. We now take an average of 97 days to consider applications for registration,

compared with an average of 117 days last year. In some cases registration can be effected very quickly. For example, 2 days after the earthquake happened in Gujarat we registered Kutch Bhuj Earthquake Fund UK. Improvements to the registration process we made this year, such as revising the application pack and making more stringent checks on trustees, mean the system is now faster and even more effective. We call this pre-registration stage the 'Gateway' approach, and we think of it as the gateway into a life-long relationship between each charity and the Commission.

It's an opportunity for us to make contact with potential trustees and promoters, to run standard checks and ask key questions. It's about requesting information at the pre-registration stage to make sure the organisation has the ability to achieve its goals.

But how do the charities themselves feel about this Gateway approach to registration? In 2001 we surveyed registration applicants about this, who showed strong support for the process, even those who were not

successful in their application for charitable status. Interestingly, of all the unsuccessful applicants who took part in the survey, none thought the Gateway approach was intrusive, irrelevant or should be discontinued, with 58% of unsuccessful applicants surveyed stating the Gateway approach was a necessary process. But our survey also showed that applicants did not think the Gateway approach had made applying for charitable status more difficult nor that it had discouraged them from seeking registration. These results seem to support the Gateway approach and reflect our vision of this process as an open and supportive way in to charity registration.

...to grave

We have a duty, under section 3(4) of the Charities Act 1993, to remove from the register any organisation which no longer appears to us to be charitable. This might occur because, although the organisation was charitable at registration stage, it has since undergone constitutional change in such a way that it can no longer be considered charitable. Or, it may never have been charitable and we either misunderstood its true

We are proactively engaging with large charities, and responding more quickly when we hear that they may be having difficulties, to offer assistance where appropriate.

purpose at registration stage, or the organisation made its purpose clear to us at the outset and we were wrong to regard that purpose as charitable. Occasionally, an organisation may cease to be charitable as a result of a decision of the Commissioners on a particular case or Review of the Register topic, which alters or clarifies previous thinking on a particular charitable status issue.

Where this occurs we will work with the trustees to either reconstruct the organisation into an exclusively

charitable form (where that can be done) or agree to remove the organisation from the register (where it cannot).

In July 2000 we set up (as a pilot) a new unit to take specific responsibility for this work. Since then the unit has completed 63 reviews, which have resulted in the removal of 6 organisations from the register and 1 reconstruction. In other cases, either no action was required as a result of the review or we were able to work with the trustees to ensure

the organisation's activities remain exclusively charitable. Following the success of the pilot, this work will continue as part of the Commission's duty to maintain an accurate register.

Preventing links with terrorism

The Gateway approach is ultimately about improving the quality of the organisations entering the sector, and boosting public confidence in charities. World events this year have thrown into sharp focus the role of charities in meeting human need. At such times, the issue of accountability

OUR VISION IS OF A CHARITY SECTOR in which the Commission's activities and influence make a powerful contribution through advice, support and effective and visible supervision

JAMIA MASJID ISLAMIC CENTRE

In 1995, we gave consent to charity proceedings between 2 charities; the trusteeship & beneficial ownership of a mosque in Southall was in dispute. In January 2000, the defendants applied to the High Court for the proceedings to be struck out. To bring an effective end to the dispute and the proceedings, Counsel for the Attorney-General (AG) suggested the establishment of a scheme to amalgamate the two charities and requiring elections for a new body of trustees to be overseen by the Electoral Reform Society. As AG's costs in establishing such a scheme would be high (£20K+), in his judgement, Lightman J directed that the matter be referred to the Commission for settling under the provisions of s16 Charities Act 1993. With an estimated cost of £680, this would be far more cost effective. He refused to allow either the claimants or the defendants to use charity funds to meet the costs of the litigation, rendering the trustees of both charities personally liable for their costs and those of the AG.

The scheme is now effective. We registered the amalgamated charity, Jamia Masjid Islamic Centre (1090425) and removed the two former charities. In making the scheme, the Commission saved considerable costs to charitable funds and Court time (upon which there is an increased emphasis following the Woolf reforms to the judicial system).

and effectiveness of charities really comes to the fore. The terrible events of September 11th gave rise to speculation about terrorist associations with British charities. Our regulatory and monitoring regime, before September 11th and since, includes procedures to target this. We work together with other regulators and rely upon the constant vigilance of the public to ensure that we do not register any organisation that has support of terrorism as an object, or permits the use of a charity's assets for support of terrorist activity. Cases involving associations between charities and terrorist groups are mercifully few but we continue to remain on the look out for any such associations. This will remain one of our priorities.

Stepping in when things go wrong

The 123 inquiry reports and the Annual Return Enforcement reports we published this year give some indication of the scale and variety of our regulatory work. Next year, as part of our Commission Development commitments, we will be given additional resources to increase the number of inquiries we undertake

CATCH!

On the basis of strong evidence that this charity was being mismanaged, we appointed 2 receiver and managers, from accountants KPMG, to run the charity. The receiver and managers quickly confirmed one of our concerns that the charity had been claiming Gift Aid from the Inland Revenue, to which it was not entitled. We had raised concerns over the Gift Aid claims with the trustees who had assured us they were correctly administering the scheme. This quite clearly was not the case and our investigations revealed that the total amount of taxpayers' money inappropriately received by CATCH! since April 2000 was in the region of £680,000.

The charity did not have sufficient assets to cover the liability to the Inland Revenue and consequently the receiver and managers approached the High Court with a view to winding up the charity. The judge agreed with the proposals and an order was issued to terminate the charities' activities. Whilst it is regrettable when any charity is forced to close, the judge's decision fully vindicated our decision to appoint the receiver and managers to a charity that lacked effective management and misused its position.

**WE WILL ENCOURAGE
AND WHERE
NECESSARY ENFORCE
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to 315. In preparation for that increase, we set up a project this year to find ways of improving our intelligence gathering to identify new inquiry cases.

Our investigations work is not about using strong-arm tactics to catch charities out. Most cases arise as a result of things going wrong without malice aforethought. The majority of the inquiries we conduct are carried out with the full co-operation and support of those affected, which reflects well on the Commission and the sector we regulate. Where we do need to take action our interventions will be prompt and decisive. This year the Commission used its regulatory powers on 338 occasions.

Prevention is better than cure

Effective regulation is not just about carrying out inquiries into charities. Preventing problems from arising in the first place, and stepping in quickly before matters get out of hand, is just as important as taking action to rectify a bad situation. We have already mentioned registration as the first point of regulation for charities. The Review Visits programme is aimed where possible at preventing

difficulties from arising, and working with charities to keep them on the right track.

The majority of our Operations staff undertake work which can be broadly defined by two key categories:

- **exercising the Commission's legal authority** (by authorising certain transactions or amendments to governing documents, such as changes to charity objects, for example, and, conversely, not authorising actions which would not be in the charity's best interests); and
- **giving guidance or advice that affects the governance, effective administration or efficiency of a charity.** (In certain circumstances, by acting upon specific advice given by the Commission the trustees are afforded some protection.)

We call this work 'charity support', but it is in fact one of the main ways in which we regulate charities. It constitutes a significant proportion of the Commission's total output. This year we dealt with 37,728 charity support cases.

Similarly, our monitoring function is designed to spot problems at an early

stage, based upon a series of financial and other triggers. This year we have monitored 96.5% of all charities with an income over £250K. We have also monitored 94.5% of charities with an income of £100K–£250K, and 87.6% of charities with an income of £10K–£100K.

Addressing fund-raising concerns

Any misuse of charity is of concern to us, and we regard tackling any misuse of funds raised ostensibly for charitable purposes as one of our key priorities. Fund-raising is also a growing concern for the public, both in terms of how the funds are used and the means by which they are raised. We need to balance protecting public confidence and the interests of donors against enabling individual charities to operate effectively.

All charities need funds to carry out the work they do, and most fund-raisers do an excellent job in supporting charitable aims. But in the course of our regulatory work we work closely with the police and licensing authorities in order to take action against those fund-raisers who mislead donors and licensing officers about how the funds would be spent

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or who wrongly or inappropriately keep for themselves some of the money collected instead of passing it on to the charity or charities for which it was raised. This year, nine prison sentences have resulted from our work in this area, an indication that our investigations are working. We hope that this will help to reassure the public who are rightly concerned about this issue.

We will take action to address fund-raising concerns, as our published inquiry reports show, but we also

believe that self-regulation has a very big part to play in effectively managing charity fund-raising. The Institute of Fundraising's donors charter initiative, which we supported this year, is an example of good practice in this area. We also recognise that making the public aware of the questions they should be asking collectors helps prevent money going astray in the first place. Our Safer Giving campaign in the run up to Christmas is an example of the steps we have taken to educate the public about this.

Over the next few months we will be reviewing our approach to fund-raising in the context of any conclusions the PIU's may have on this.

Working with other regulators

As the case study below illustrates, being an effective regulator means not working in isolation. We have always sought to work alongside other regulators that have an interest in charities, such as the Inland Revenue, the police and local licensing authorities, as well as government departments and

Partnership:

WE ARE COMMITTED TO working together with charities, with all their and our stakeholders, with other government departments and agencies, and within the Commission

ROYAL CONSULTING

We started investigating Royal Consulting, a Dutch firm, in 2000. This followed complaints from charities and the public that the company was sending first aid kits to UK residents who hadn't requested them, accompanied by demands for payment, saying that a proportion of the profits would be donated to named charities. In May 2001 we issued warnings to the public about this.

Using its pan-European powers, the Office of Fair Trading worked closely with us and the Dutch Consumers Association (Consumentenbond) to bring this activity to an end. An excellent example of joined-up regulation in action.

regulators covering specific charities, such as the Department for Education and Skills and the Housing Corporation. This year has seen the Commission enter into a new phase in its relationship with some of our key regulatory partners. In November, we hosted the inaugural meeting of a new Charity Intelligence Forum involving 11 other regulators. The purpose of this Forum is to ensure that we take a joined up regulatory approach to charities, working together to share information and

ensure that charities are not overburdened by different regulators contacting them.

The Charity Commission and the Inland Revenue have a long and successful track-record of working closely on a range of charity-related issues. That relationship was enhanced further in December, when we signed a Memorandum of Understanding. This document set out the way the two organisations intend to work with one another in the future and clarified expectations on each side. We hope to develop similar Memoranda with other regulators in the coming year.

Working with the Attorney-General

The Commission and the Attorney-General have complementary roles in securing the proper administration of charities in the public interest. The Commission is the regulatory body and adviser. The Attorney-General acts on behalf of the Crown as the representative of the beneficiaries or users of charities. At some points the roles overlap: the Commission and the Attorney-General have joint responsibility for authorising ex-gratia

payments (ie payments made under a moral obligation but without any legal power) and the taking of legal proceedings with reference to charities. The Commission discharges these joint responsibilities in the first case under the general supervision of the Attorney-General and in the second by seeking the Attorney-General's consent to proceed on a case by case basis. Otherwise the Commission is entirely independent of the Attorney-General.

The Commission and the Attorney-General have a close working relationship which is necessary to ensure the effective co-ordination of their respective responsibilities in relation to charities. Building on this relationship the Commission and the Attorney-General (in practice with the Solicitor General who acts for the Attorney-General in relation to his charity jurisdiction) are currently exploring ways in which their respective responsibilities can be more effectively and efficiently discharged. For example, through the development of criteria identifying in what circumstances the Attorney-General is likely to consent to the Commission taking legal proceedings.

Effective regulation is not just about carrying out inquiries into charities. Preventing problems from arising in the first place, and stepping in quickly before matters get out of hand, is just as important as taking action to rectify a bad situation.

MODERNISING CHARITY

400 years of charity

2001 marked the 400th anniversary of what is known as the Statute of Elizabeth (the Preamble to the Charitable Uses Act 1601), which established the original framework of charity law. We marked this occasion with events around the country, including a hunt for some of the oldest active registered charities in England and Wales. The results showed how education, the relief of sickness and poverty, then and now, so often lies at the heart of charitable endeavour. In looking back at charity in the past it also brought to mind that charity is a contemporary issue and so we contrasted our hunt for the oldest charities with examples of some of the newest registered charities.

From Queen Elizabeth I to Queen Elizabeth II

It seemed fitting that, in the year in which we marked the anniversary of a Statute introduced by Queen Elizabeth I, we should also have occasion to register a charity marking the Golden Jubilee of Queen Elizabeth II.

The Queen's Golden Jubilee Weekend Trust (1088196), registered in August, has the responsibility of overseeing the

organising of the events of commemoration during the Golden Jubilee weekend, co-ordinating and supporting various community-based activities scheduled to take place between the 1st and 4th June 2002. At completion of the celebrations, any remaining funds will be donated to five specified Golden Jubilee charities.

Recognising new charitable purposes

Modern charities challenge us to think in new and flexible ways about achieving charitable aims and to recognise as charitable purposes that may not have been regarded as charitable before. We want our guidance to reflect changes in the charity sector. (For example, in October we held a workshop to look at the relationship between social entrepreneurship, new philanthropy and charitable status.) This has been the aim of our Review of the Register programme since it was launched in April 1998.

The Review of the Register has established a good track record in applying and interpreting charity law in a way which fully recognises that what is legally charitable may change following trends in social and economic

circumstances. Our new publication RR1A: Recognising new charitable purposes, issued in October, clarified the scope that the Commission has for recognising new charitable purposes within the current law. As part of its responsibilities for maintaining the Register of Charities and assisting in the development of the legal framework, the Commission has the ability, within that framework, to recognise new charitable purposes notwithstanding the previously held legal position. This was evidenced this year on a general level through our decision to recognise the charitable benefits of community sport and in a specific case by recognising the General Medical Council as charitable.

A sporting chance

In November we announced our decision to recognise as a new charitable purpose the promotion of community participation in healthy recreation by the provision of facilities for playing a particular sport or sports. This meant that, for the first time, community amateur sports clubs (CASCs) could apply to become charities.

Our decision came about as a direct result of our long running public consultation on the issue but it

Modern charities challenge us to think in new and flexible ways about achieving charitable aims and to recognise as charitable purposes that may not have been regarded as charitable before.

coincided with preparations for a consultation by HM Treasury on a proposed new form of tax relief for CASCs. We therefore worked closely with colleagues at the Treasury, Inland Revenue and the Department for Culture, Media and Sport to ensure that any implications that our decision might have for that consultation were properly taken into consideration.

We recognise that, for many sports clubs, the idea of becoming a charity may seem unfamiliar, even something to be wary of. We have therefore been working with sport's governing bodies in the UK to provide reassurance that we are committed to encouraging CASCs to apply for registration and that the responsibilities that come with charitable status are proportionate to the financial and other benefits it can bring. We have produced guidance to assist CASCs considering the possibility of becoming a charity. We will also continue to work with sport's governing and umbrella bodies to allay any concerns and to help make the procedure for registering CASCs as straightforward and expeditious as possible.

Modernising:

OUR VISION IS OF A CHARITY SECTOR which keeps pace confidently and competently with the pace of change in society, the economy and the needs of the beneficiaries

GMC CASE STUDY

The General Medical Council ('GMC')

The GMC is a statutory body which regulates the medical profession in the UK. Its statutory functions include the registration of doctors, the promotion of high standards of medical education, the co-ordination of medical education, the provision of advice on standards of professional conduct or medical ethics and dealing with doctors who may not be fit to practise. Previous decisions by the Court of Appeal and House of Lords had ruled that the GMC was not charitable. In 1999 the GMC applied to us to register as a charity.

The Commissioners considered the application in view of the GMC's current constitution and activities and the social and economic environment within which it operates, and reviewed the relevant law. They concluded that, since those earlier court decisions, there had been sufficient changes in these areas taken together for them to reconsider the GMC's charitable status.

The Commissioners concluded that the GMC is established *for the purpose of the protection, promotion and maintenance of the health and safety of the community by ensuring proper standards in the practice of medicine*, being charitable by way of analogy to the established charitable purposes of the protection of human life and the promotion of public health. Also that the GMC is established for the benefit of the public, any benefit to doctors being incidental.

Protecting health

As explained above, it is not just in the context of the Review of the Register that new charitable purposes can be recognised; some new charitable purposes have been accepted in the context of decisions in individual cases. Our decision this year to register the General Medical Council ('GMC') as a charity is an excellent example of this.

The GMC case broke new ground for the Commission in the sense that we found that a body which was previously ruled by the Court as non-charitable was indeed charitable given its current constitution and activities when viewed in a modern social context.

New light through old windows

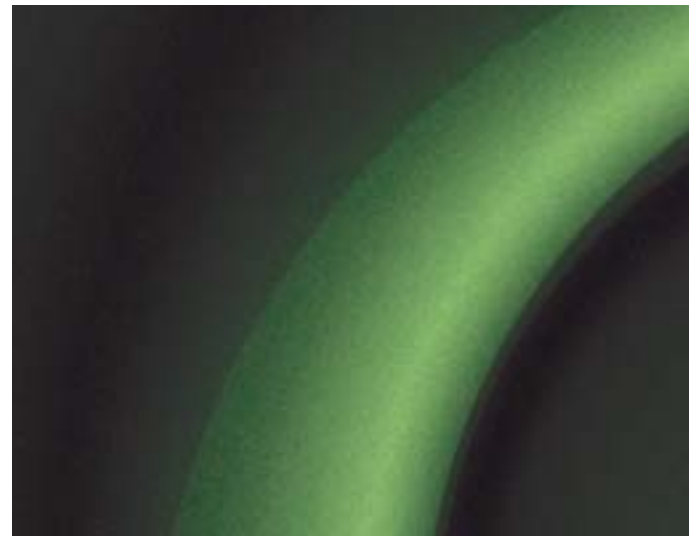
The Review of the Register is not just about identifying new charitable purposes. It is also about interpreting existing charitable purposes in a modern context, as demonstrated by other consultations we conducted this year.

Our consultation on Museums and Art Galleries, for example. It is already

accepted that museums may be charitable as advancing education. The promotion of art, by presenting to the public works of an objectively high standard, can also be charitable. But, over the years, there have been significant advances in the ways that collections in museums and art galleries are exhibited. Our consultation examined the changing ways in which those organisations operate and interact with the public, to help us better understand how to determine the merit of a collection or exhibition. Our workshop with representatives from museums and art galleries gave us a valuable opportunity to exchange ideas about the educational value of museums and art galleries, how they promote art and further other charitable purposes for the benefit of the public. We will publish our findings on this later this year.

Similarly, the charity of promoting the efficiency and effectiveness of charities has already been recognised. Our consultation on this therefore hoped to clarify the criteria defining the work of these organisations which would qualify them for

charitable status and the factors that distinguish a charitable organisation providing services to other charities from a commercial business doing the same. But the potential for identifying new charitable purposes is never far away and so, at the same time, we launched a consultation on whether we might recognise the promotion of the voluntary sector as a charitable purpose in its own right. The results of both consultations will be published next year.



The Review of the Register is not just about identifying new charitable purposes. It is also about interpreting existing charitable purposes in a modern context.

RESPONSIVE TO DEVELOPMENTS IN THE SECTOR

Current trends

The world in which charities are operating is becoming more complex and sophisticated, presenting both challenges and opportunities. Developing trends and issues for the sector and for the Commission include:

- Gross income of over £26billion for all registered main charities, representing an increase of 69% in the last 5 years;
- Concentration of income, with some 6% of charities receiving nearly 90% of the total annual

income and pretty constant over the last 5 years;

- A voluntary sector which now receives nearly one third of its income from Government¹; identifying the 'added value' charities' can bring to the delivery of public services, and looking at the relationship between this role and charities' on-going independence;
- Following the Charities Tax Review, a more favourable fiscal environment for charities, with the potential for charities to promote the possibilities of Gift

Aid and tax effective donations;

- Implications of cross border operations and devolution, and related issues such as the Scottish Charity Law Review of the legal framework for charities operating in Scotland;
- Growing interest in social investment and entrepreneurship, with the Commission publishing guidance on Programme Related Investment and clarifying our approach with key stakeholders;
- Some indicators suggesting signs of a declining sense of social obligation, which may have possible implications for charity trustee skills, the level of charity volunteering and donations;
- Research indicating substantial public concern about some aspects of fundraising² with calls in the public arena for charities to give a better account of themselves, and the outcomes they achieve.

Regulatory reports

Charities are as passionate and committed as ever. They are also in a state of tremendous flux and growth. A constant challenge for the Commission, umbrella organisations and the media is how to keep an overview of over 185,000 registered

Modernising:

WE ARE COMMITTED TO BEING a forward-looking Commission, enabling and encouraging charities to modernise in step with society's needs and expectations

¹ The UK Voluntary Sector Almanac 2002

² Eg 'Public Trust and Confidence: An Empirical Study' by Henley Management College

charities, ranging from village halls to multi-million pound international organisations. This year we launched a new initiative, Regulatory Reports, aimed at contributing to an accurate and unsentimental picture of the charitable sector. As part of our Commission Development Programme to expand and carefully tailor our regulation and support services, we are reporting on key aspects of charity using many different tools to gather information. The studies will draw on our practical work supporting and sometimes investigating organisations, on commissioned surveys and on our new in-depth review visits to individual charities.

For the first report we chose to look at trustee recruitment, selection and induction. We believe that by helping to ensure that good trustees can be recruited and given a sound start, they can play a key role in preventing some cases of difficulty arising in the first place. Trustees are often the unsung heroes of charities but it is vital that modern trustee boards are representative of all areas of society, act professionally, draw on a good pool of skills and that new trustees

OUR VISION IS OF A charity sector which meets the needs of potential beneficiaries effectively...

CANCER RESEARCH UK

When Imperial Cancer Research Fund ('ICRF') and Cancer Research Campaign ('CRC'), two of the UK's largest cancer research charities with very high public profiles, approached us with proposals for a merger, we recognised that this was an important and far-sighted venture by the Trustees and we and they knew it was necessary to get it right. Our early involvement meant we could advise them on the process, and help them to concentrate on the aim of increased effectiveness and exercise rigour in determining whether a merger was in the best interests of each charity. In our regular liaison meetings we advised on proposed ways of structuring the new charity, warning of any legal obstacles and suggesting alternative routes. Once the merger was decided upon we advised on the setting up of the new charity and subsequently registered it. Our authorisation of the transfer and vesting of ICRF and CRC's property in the new charity prevented the need for individual deeds of transfer, thus saving the charities over £600,000 in costs.

The merger took effect from 4 February 2002. Cancer Research UK (1089464) is now operational and we and the new Board of Trustees of Cancer Research UK are delighted to see how smoothly and effectively the integration of the two charities is being managed. We will continue to work with the charity to ensure that any special trusts and legacy income attaching to the old charities, attach to the new one.

are properly screened and introduced to their role thoroughly. The report finds some very good practice but also highlights plenty of scope for improvement across the sector.

These regulatory reports will hopefully provide an up to date and clear picture of key topical issues. Further reports are planned on charities and commercial partners, charity reserves, collaborative working and mergers and milestones in the lifecycle of a charity.

Joint working and mergers

There is a view held in some quarters that there are too many charities. Some people believe that there are too many charities competing for too few funds and that a significant amount of charitable resource could be saved if more charities pooled their resources and worked together.

The reality is that the majority of charities are relatively small, local organisations that rely entirely on the unpaid help of their trustees and other volunteers. They may have similar purposes to many other charities but they are all serving different communities. By and large, there is no overlap, no duplication and little scope for cost-cutting.

It is the much larger, professionally-run, charities that tend to face charges of duplication, waste and over-aggressive fund-raising. Whilst there are some clear advantages to be had from a healthy plurality of charities, there are big benefits of public confidence and support to be had from showing collaborative, as opposed to over-competitive, instincts.

We are in no position to compel charities to join together, nor can we refuse to register an organisation with clearly charitable objectives simply on the basis that another similar charity already exists. Nevertheless, we have been working this year towards encouraging charities to be alive to the possibilities for working better by working together. Examples of good practice in this area range from shared helplines, joint flag days and combined grant administration and joint marketing initiatives, to partial or full mergers.

The merger this year between Imperial Cancer Research Fund and Campaign for Cancer Research to form Cancer Research UK is an excellent example of how two major

charities working in the same field can join forces to make an even greater impact.

We will continue to work with charities to encourage them to work together where possible to maximise the benefits from their endeavours and resources. We hope that next year's regulatory report on collaborative working and mergers will usefully add to the debate on this issue.

The Statement of Recommended Practice on Accounting and Reporting by Charities (SORP) 2000

The Charity Commission, in its role as a SORP making body, is now required by the Accounting Standards Board's new code of practice to undertake an annual review of the SORP. In 2001 we undertook the first review, in conjunction with the SORP Committee, to consider the impact of new accounting standards, the general acceptance of the SORP by the sector and developments within the sector.

In March we published on our website an information sheet detailing the outcome of the review. It does not amend SORP 2000 but provides a useful steer on a number of SORP

We have been working this year towards encouraging charities to be alive to the possibilities for working better by working together.

HIGHLIGHTS AND MAIN ACHIEVEMENTS

APR

- Commission launched Vision & Values statement
- Naming of persistent defaulters on the Internet introduced
- Pilot charity review visits started
 - Public consultation on Commission development

MAY

JUNE

- General Medical Council registration decision announced on our website
- Consultation on whether to include trustee names on the Internet

JULY

- Commission achieved Investors in People re-accreditation
- New Contact Centre launched
- Charitable Incorporated Organisations (CIO) report published
- Sector workshop on Museums & Art Galleries

AUG

- Queen's Golden Jubilee Weekend Trust charity registered

SEPT

- World Trade Centre Disaster Fund Appeal registered in 3 days

OCT	NOV	DEC	JAN	FEB	MAR
<ul style="list-style-type: none"> – NAO report published – 400th anniversary of Statute of Elizabeth – Sector workshop on social entrepreneurship & new philanthropy 	<ul style="list-style-type: none"> – PAC hearing – Status decision on sport announced <ul style="list-style-type: none"> – Cancer Research UK registered – Charity Intelligence Forum established <ul style="list-style-type: none"> – Consultation on Efficiency & Effectiveness of Charities & Voluntary Sector – Enhanced Register of Charities released on our website 	<ul style="list-style-type: none"> – Schemes on the internet launched – New legal non executive Commissioner (David Unwin) appointed – New look website launched – Memorandum of Understanding with Inland Revenue signed – Successful completion of complaints & review of decisions pilot – Jodi Berg re-appointed as Independent Complaints Reviewer 		<ul style="list-style-type: none"> – Concordat with Welsh Assembly signed – First annual review of the SORP completed 	<ul style="list-style-type: none"> – Visit by Solicitor General – 7 out of 9 Key Performance Indicators achieved – First Regulatory Report published – Commission awarded Opportunity Now gold standard

accounting issues, and encourages a more coherent approach to cost allocation in charity accounts. Helpful clarification is provided on:

- how the FRSSE (Financial Reporting Standard for Smaller Entities) can be applied by smaller charities that produce consolidated accounts which include their trading subsidiaries;
- the allocation of investment management fees between restricted and unrestricted funds;
- the criteria that need to be met in recognising a promised grant or donation as income in the accounts;
- the criteria that should be met before any costs relating to a fund-raising activity can be allocated to charitable activities.

A consultation exercise is planned for June 2002 on FRS 17 – Retirement Benefits. This new financial reporting standard, issued by the Accounting Standards Board, will impact on all organisations, including charities, that contribute to defined benefit pension schemes.

Charities' approach to risk management

Risk Management is a concept which increasingly features in the strategic

planning of all organisations, including government departments, local authorities and commercial enterprises. Charities are no different. SORP 2000 introduced a new requirement into the trustees' Annual Report, requiring trustees to make a statement confirming that they have reviewed major risks and established systems to mitigate those risks.

The whole area of risk management, however, needs to be seen in a much wider context than simply that of complying with SORP. While this is a requirement for charities with incomes of over £250,000, we also encourage risk management as common-sense best practice for smaller charities.

Our guidance, 'Charities and Risk Management', issued in October, has been designed to provide practical help to trustees. It explains each stage of the risk management process, and offers systems to identify major risks and to help trustees decide how to deal with them. It also provides a useful pro-forma 'risk register' to summarise the results of the process and see where more action or monitoring may be needed by the charity.

Empowering charities to operate effectively

In May, we encouraged trustees to think imaginatively about how they operate in communities where commercial investment is scarce by issuing new guidance on the extent to which charities could undertake 'programme-related investments'. There had been some uncertainty about the extent to which charities could make soft loans to, or equity investment in, business run for community benefit by social entrepreneurs. Our new guidance was designed to show that many charities have much more latitude for this than they may have thought.

Investment powers: derivatives

The Trustee Act 2000 gave trustees a general power of investment enabling them to make investment decisions in the best interests of their charities, without being confined by the restrictions previously contained in the Trustee Investment Act 1961. The Act provided opportunities for charities to develop an investment strategy suited to the needs of their beneficiaries but, by way of safeguard, imposed important responsibilities on trustees. In

Risk Management is a concept which increasingly features in the strategic planning of all organisations, including government departments, local authorities and commercial enterprises. Charities are no different.

February we provided guidance for trustees, in our operational guidance on the Trustee Act 2000, to help them to make effective use of this general power, including new advice on the use of derivatives within the trustee's investment strategy. Previously, our policy on this had been that the purchase of a derivative could not, under any circumstances, be within the scope of a power of investment – regardless of the reasons the trustees had for making the purchase. Our revised view is that the purchase of a derivative can be


regarded as being within the scope of the general investment, as long as the purchase is in support of the investment process. This change is significant and is intended to help trustees in achieving efficient investment management.

Practice Note 11 – The Audit of Charities

This year, we were pleased to be invited by the Auditing Practices Board to join their working party dealing with the update of Practice Note 11 – the Audit of Charities. The

Practice Note was first issued in October 1996 and sought to provide guidance on the application of Auditing Standards to charity audits in the United Kingdom.

The issue of SORP 2000, the development of new accounting and auditing standards and new legislation such as the Trustee Act 2000 has inevitably resulted in the 1996 guidance becoming rather dated. The revised practice note, published in April 2002, brings charity audit guidance up to date.



... **AND** IS HELPED IN THIS BY
THE LEGAL, accounting and
governance frameworks of which the Commission has stewardship

TRANSPARENT AND OUTWARD-LOOKING

Committed to openness

The principles of openness and transparency are central to the way we work. Over recent years we have been making more and more information publicly available. Not just because we are committed to fulfilling our obligations under open government, or because we are mindful of the implementation in 2005 of the Freedom of Information Act, but in a genuine desire to meet our own aspirations to be open and approachable. By setting a good example ourselves we hope also to encourage charities to do likewise.

Making more information available

Our website is an important window on the Commission's work. It is the means by which we can reach as many of our customers as possible, within and outside the UK, quickly and easily, around the clock.

Enhancing the Register: One important and much used area of the website is the online Register of Charities. In November we enhanced this further by including even more detail about registered charities, such as their recent financial history, so that people can check that charities have

been meeting their financial and other obligations. More information is now available about the details and activities of each charity, as well as its annual income, annual return history, its registration history and, where available, its website and email addresses. As well as making information available, we have a duty to ensure that it is kept accurate and up-to-date. To help ensure this, registered charities are asked to complete annually a Register Check form, to advise us of any changes to their registered details. As at March 2002, an independent report by the Commission's internal auditors, Bentley Jennison, on the accuracy of the register showed that over 99% of the database entries were complete and accurate.

Learning from our inquiries: Our published reports on our inquiries into charities including our Annual Return Enforcement reports have also become an established part of the website. Wider lessons that have emerged from this work include:

- the continuing failure of some charity trustees to fulfil their duty to submit Annual Returns, Accounts and Annual Reports (we are

committed to pursuing those charities in default, particularly those with incomes in excess of £100,000pa, using our statutory powers where necessary);

- the high risk to charity funds and reputations from poor fund-raising practices;
- the need for charities to maximise direct charitable expenditure and efficiently manage fund-raising and administrative costs;
- the need for charities, and charity auditors, to ensure that charity accounts do not provide a misleading picture by overstating the levels of direct charitable expenditure;
- the need for charities to have proper arrangements in place to prevent individuals taking inappropriate personal benefit from their involvement with charities; and
- the need for transparent arrangements and documentation to support claims for personal expenses and the use of charity property.

Clearly there is value from publishing these reports in terms of the public interest in what charities do and how we discharge some of our regulatory duties. We also hope that publishing

The principles of openness and transparency are central to the way we work.

Openness:

**WE ASPIRE
ALWAYS to
be open and approachable
and always to present a human face**

the findings of our inquiries will serve as useful lessons for other charities so that they might avoid some of the same pitfalls.

Schemes online: Another useful addition to our website this year was 'Schemes on the Internet'. A 'scheme' is a legal document by which we may amend, replace or amplify a charity's governing document. In view of the public interest in this, charity legislation provides for public consultation on schemes before we seal them. Until recently public notification occurred primarily via the national and local press and local notice boards. This new feature enables our customers, for the first time, to make representations on schemes and view draft and sealed schemes online, thereby broadening access to them.

Publishing our decisions: We already make all our publications available, free of charge, on our website, and we are continuing to add more and more of our staff operational guidance, so that our customers can understand the basis upon which our decisions are being made. But we think it is important also to make public some of

the decisions we take, particularly where individuals affected by one of our decisions have sought to have it reviewed. It would not be practical to publish the results of every decision we take, as these number many thousands per year. We think it is useful to publish decisions which set a precedent, or overturn a previous policy or approach, or which might have implications for other similar charities, or where there is significant public interest in the outcome. Our published inquiry reports are already a good example of this. We are also

now publishing the outcome of some decisions that have been taken as a result of our internal review procedures and will increasingly publish significant charitable status decisions, such as those we have already published on applications for registration from the General Medical Council and the Church of Scientology (England and Wales).

Improving the shop front

As we place greater reliance on our website for the delivery of our key messages and guidance, and place an

ever increasing amount of information on it, it is vital that our customers are able to locate and access that information as easily as possible. For this reason, we launched in December a new look and improved navigation for the website, with special features to meet the needs of people who are visually impaired.

Early feedback from our customers on all these enhancements has been very positive. This is reflected in the statistics for web usage, which showed nearly 150,000 more hits in January 2002,

Integrity:

WE WILL SHOW
IMPARTIALITY,
fairness, independence and
honesty in everything we do

THE CENTRE FOR CORPORATE ACCOUNTABILITY ('CCA')

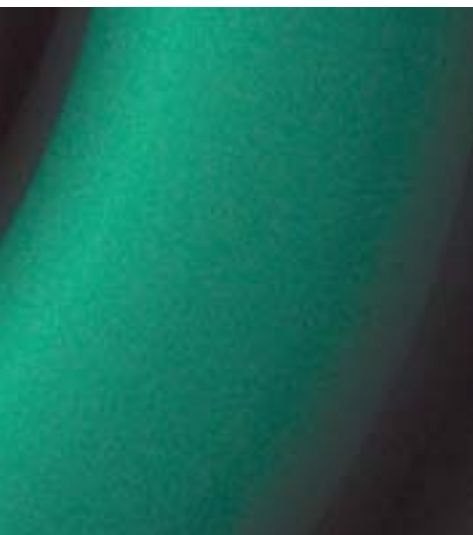
In accordance with our review of decisions procedures, CCA sought a review by the Commissioners of a decision not to register the organisation as a charity; that decision having been upheld at 1st and 2nd stage reviews. The proposed objects of CCA were: *(a) to promote the safety of the public generally or any section of the public and/or members of the public; (b) to promote compliance with, and enforcement of, health and safety laws and other criminal laws relating to safety; and (c) to promote the sound administration of the law in relation to matters concerned with safety.* CCA described its activities as advice (eg providing free and independent advice on corporate accountability issues & on the relevant law and procedures); research (eg producing reports such as 'The Health & Safety Executive's investigation and prosecution policies'); and advocacy (ie advocating law reforms or changes in practices where their advice and research activities indicate the need for these).

The Commissioners concluded that, whilst the stated purposes are capable of being charitable, the means by which they were to be carried out was not. They concluded that advocacy is CCA's primary activity (the advice and research activities being ancillary to that), that it is not established for charitable purposes for the benefit of the public; that it has a non-charitable purpose to advocate for a change in the law of corporate killing and to influence the prosecution and investigations policy of the Crown Prosecution Service and the Health & Safety Executive. Accordingly, they upheld the decision not to register CCA as a charity.

following the launch of the new version, than for the last full month's usage of the old version. This year, our website received over 9 million 'hits', compared with over 6 million last year and just over 3 million the year before.

Encouraging greater openness in charities

Giving the public confidence in the integrity of charity means making sure that the public has a better understanding about what charities are doing, and how well they are meeting their financial and other obligations.



Naming large charities that persistently failed to fulfil their statutory duty to provide us with annual accounts and reports was one step we took this year to make the work of charities more transparent. The information contained in charities' annual reports and accounts is central to achieving accountability in the charity sector. In 2001, we named charities that persistently failed to provide this important information and we remain committed to taking strong action to ensure charities fulfil this basic statutory requirement. Fortunately, the number of charities that fail to do this is very small, as our key performance indicator for the percentage of charities monitored shows.

The public has a legitimate interest in the identity of charity trustees, who are accountable for the assets and actions of charities. As the regulator of charities, we can help the public hold trustees to account by making information available about trustees. However, trustees are entitled to personal privacy and we need to ensure that any proposals to make more information about trustees available strike the right balance between maintaining their privacy

and the need for accountability. In 2001, we undertook a consultation on proposals to make the names of all charity trustees available to the public on the Internet. The proposals would enable members of the public to identify the trustees of any registered charity and whether anyone who is a trustee of one charity is also trustee of one or more other charities. We also proposed making extra checks on a cross section of charities each year to ensure that their trustees do not include anyone who is legally barred from trusteeship. We are grateful to everyone who responded to this consultation and we will be announcing the results of this shortly.

The new SORP and trustee reporting

This year saw the release of a new Statement of Recommended Practice on Accounting and Reporting by Charities (SORP). One of the differences between the 1995 SORP and the new SORP is the extra emphasis that is now put on trustee reporting. This is intended to be a report, expressed in words and figures that people who are not financial experts can understand, on what the charity has used its resources for during the year, what it

Giving the public confidence in the integrity of charity means making sure that the public has a better understanding about what charities are doing, and how well they are meeting their financial and other obligations.

has achieved and what are the plans for the future. We hope that these trustees' reports will become key documents and that trustees take an active role in their production.

Open about costs

Charities are clearly independent bodies but they need to remain aware of public and media concerns about issues such as fund-raising and administrative costs. We understand that good management and administration costs money. We also know that the public will not always understand that reasonable costs are an essential part of efficient fund-raising. We will therefore play our part in explaining and educating the public about this by creating an environment in which they have realistic expectations about charities' costs. Equally though, we will take action where a charity's costs are well beyond what is reasonable.

We understand that some charity trustees may be worried that what they reveal about their charity's costs will be misunderstood, taken out of context, or used to compare their charity unfavourably with others. Nevertheless, reacting defensively to negative publicity about costs by disclosing as

little as possible will do nothing to allay public concerns about this. We believe that a willingness to disclose, explain and justify legitimate, even if seemingly high, costs will elicit greater support in the longer term, than being secretive and defensive about costs, allowing critics to draw their own conclusions.

Valuing the diversity of our customers

As we say in our Vision and Values statement, we pride ourselves on being accessible to the community in all its diversity.

For our customers with disabilities:

- We have released a text only version of our website
- We have a minicom number available for our Contact Centre (0870 333 0125)
- We have braille and audio versions of our publications available

For our black and minority ethnic customers:

- We produce certain publications in other languages
- We aim to have in place quality systems which properly meet their needs
- We will publish in May 2002 a Race

Equality Scheme, setting out our approach to promoting race equality in all our work.

For our customers in Wales:

- All our publications are available in Welsh
- We will conduct correspondence in Welsh, by letter or email, subject to our usual Service First targets
- We are in the process of agreeing our Welsh Language Scheme with the Welsh Language Board
- From 2 April 2002 we are establishing a new Welsh Charities Unit, based in our Taunton office, to undertake charity support work for all charities based in Wales. This will enable us to provide a tailor made service that meets the needs of Welsh charities and the Welsh Assembly and based upon our commitments in our Welsh Language Scheme.
- We have signed a Concordat with the Welsh Assembly Government, to enshrine the role of our support and regulatory work in Wales, as a result of effective co-operation, both pre- and post devolution, between Welsh government and the Commission. This provides a strong framework to further develop our relationship with the National Assembly.

We believe that a willingness to disclose, explain and justify legitimate, even if seemingly high, costs will elicit greater support in the longer term, than being secretive and defensive about costs, allowing critics to draw their own conclusions.

Openness:

WE PRIDE OURSELVES on being
accessible to the community in all its diversity

COMMITTED TO GOOD QUALITY

Our commitment to good customer service

'We will show high professional standards and provide a cost effective service. We aim to get it right first time and to be prompt, courteous and constructive in all our dealings. We are committed to continuous improvement and will seek to learn both from the things we do well and the things we do less well.'

This is the commitment we make in our Vision and Values statement. We

have therefore undertaken a number of our activities this year to help us gauge how well we, and our customers, think we have delivered against it.

Service First

This year we achieved or exceeded 7 of our 9 Key Performance Indicators where we have targets. The 2 not achieved were missed by a margin of 3.5% or less. With a 9-day average, we have exceeded our Service First target for responding to correspondence within an average of 15 days.

This year we issued a new Service First statement on our website to extend our commitment to dealings with customers, in particular, by telephone, fax and e-mail.

It is a significant achievement that Commission staff have managed to improve our operational performance despite an increased workload and with limited resources and during what has been a challenging period of considerable change for the Commission.

Openness:

WE ARE DEDICATED to giving an excellent service to our customers, including charities, their beneficiaries and the public

Better Quality Service

As part of the Government's commitment to Better Quality Service, this year we completed reviews of the Commission's helplines, and undertook reviews into our advice and guidance and charitable status functions, and our outreach and education work. The Charity Commission, like any organisation that manages itself properly, constantly reconsiders how best to conduct its business. These reviews provided a good framework for this.

As a result of the first of these reviews, in July we centralised our helplines at a new Contact Centre at our Liverpool office so that customers now have a single telephone contact point – 0870 333 0123 – for all queries and will receive a quicker service on a wide range of questions. The minicom facility for callers with hearing difficulties continues to be available on 0870 333 0125. We will be developing the Contact Centre over the next few years.

We will continue to use the review programme to identify further improvements to the service we

offer, and we will use any efficiency gains to provide a more targeted efficient service.

Dealing with complaints

In January 2000, we introduced a pilot scheme to review our procedures for handling complaints about our work and requests for reviews of our decisions. That pilot ended on 31 December 2001.

The procedure for handling complaints involves a three stage process – the first two stages being internal considerations, with the third stage being independent examination by an Independent Complaints Reviewer (ICR). Mrs Jodi Berg was appointed as the Commission's ICR for the duration of the pilot.

In December, the ICR published a report on the completed two year pilot programme. During the pilot the ICR undertook 59 reviews. In her report, Mrs Berg noted that there had been a dramatic change within the Commission over the previous two years in our approach to handling complaints. She praised the increasing transparency and clarity of

our procedures, including our complaints procedures. She also welcomed our commitment to treating criticism as useful feedback. We also found the relatively low proportion of complaints upheld during the pilot encouraging; of the 59 investigations completed only 16 were either upheld or partially upheld.

In her report Mrs Berg commented, 'All the complaints I review have already been investigated within the Commission's own internal procedure. Overall, I have been impressed by the Commission's determination to resolve complaints as quickly as possible and to give people a full and open response. As a result, it is not surprising that I do not uphold most of the complaints referred to my office.'

Nevertheless, the importance of the complaints procedure is that we learn from it and we accepted the recommendations made by the ICR on further areas for improvement. For example, we need to better manage the expectations of complainants at the outset and avoid being drawn into dealing with complaints that are

It is a significant achievement that Commission staff have managed to improve our operational performance despite an increased workload and with limited resources and during what has been a challenging period of considerable change for the Commission.

outside the Commission's remit. We need to clarify early on whether a complaint is about one of our decisions, about the service we provided, or partly both. We also need to ensure that we keep the complainant properly informed about the progress of their complaint and try to bring the issue to a close as expeditiously as possible.

We are pleased that, following open competition, Mrs Berg has been re-appointed as our ICR.

Reviewing our decisions

In January 2000 we also began piloting new procedures for dealing with requests for reviews of our decisions made in the course of our operational and legal work. Those procedures provided customers with a structured, consistent and formal approach to dealing with those requests. It also involved different stages, culminating with a review by Commissioners.

At the end of the pilot in December 2001, we decided to continue the operation of the structured approach to the review of our decisions. We thought also that it would be

beneficial to publish the results of some of the reviews of our decisions, depending upon the merits of the individual case. Cases published would be on the basis that doing so would be of assistance and interest to the wider charitable sector. Our commitment in this process is to ensure that all parties involved in, and affected by a review, should be given a consistent and fair treatment and a fair hearing.

Committed to continuous improvement

In June, we set up a new Customer Services Group, to help embed across the Commission the lessons learned from the complaints and review of decisions pilots and issues arising from our customer surveys. The aim of this is to help improve our processes and customer feedback arrangements. The Group held regular meetings with Jodi Berg to discuss issues emerging from the complaints pilot. Although we were pleased that relatively few complaints were found to be justified, we nevertheless take seriously the fact that someone has complained and so use this as an opportunity to look for ways to improve. We are now

revising our guidance on our complaints and review of decisions procedures to make them more accessible for our customers, including new forms which can be completed online.

We have also nominated one of our Commissioners (Julia Unwin) to act as our consumer champion.

What our customers think

The only way that we can truly gauge whether we are providing good customer service is to ask our customers what they think. This year we conducted customer surveys on our new look website, our registration procedures, including 'gateway', the reasons why some people do not proceed with registration applications (NOP also conducted a similar survey on our behalf) and what people thought about some of our education and outreach events.

The results of these surveys showed a high level of customer satisfaction. They have been used to inform reviews of our charitable status and outreach and education functions and the redesign of our website.

Although we were pleased that relatively few complaints were found to be justified, we nevertheless take seriously the fact that someone has complained and so use this as an opportunity to look for ways to improve.

Further customer surveys are planned for next year.

eGovernment

In 2001 we initiated a major programme of work to enable us to meet the aspirations set for all government departments to have the capability to create, store and retrieve all new records electronically from 2004 and deliver services electronically by 2005. These developments are aimed at improving options for the better delivery of service to our customers without compromising the levels of service provided to customers via non-electronic means.

Our plans for the next two years include the procurement of a new electronic records and document management system. This will provide a platform for the improved management of all our records and will facilitate better access to these records as required under Freedom of Information legislation. It will also assist in the provision of access to charity accounts and governing documents in electronic format for the first time.

Modernising:
**WE WILL EXPLOIT
NEW technology so that
our service keeps pace with changing needs**

DEVELOPING OUR PEOPLE

Responsive to the Civil Service Reform Agenda

In his Annual Report to the Prime Minister this year Sir Richard Wilson, Head of the Home Civil Service, set out a new agenda for Civil Service reform. The goal he identified is to create a more open, diverse and professional Civil Service in which people will put the public's interests first; to innovate, create and learn; to take personal responsibility; to work in partnership with others; and to use new technology to deliver results of high quality and good value.

We have been working hard to ensure that these aspirations underpin our own agenda for change.

Investing in People

As an 'Investor in People' we value the skills, knowledge and experience of all our people. Despite our very limited resources we are committed to providing learning and development opportunities that will improve individual competence and business performance. We were therefore delighted to receive re-accreditation as an Investor in People in July.

Managing diversity

The Commission is a member of 'Opportunity Now', the 'Business in the Community' led campaign that works with employers to realise the full potential of women at all levels and in all sectors of the workforce. We have clearly demonstrated our commitment to this by achieving the Opportunity Now 'Gold' standard for the second year running. Our Diversity Steering Group, set up at the beginning of the year, established ethnicity and disability fora for our disabled and minority ethnic staff to

Valuing our people:

ALL OUR STAFF ARE IMPORTANT
AND WE value their skills, knowledge
and diversity. We are committed to providing leadership, keeping
people informed, promoting a balance between work and home life, and
developing skills

assist in the formulation of an action plan to support our diversity strategy.

Our key challenge next year is to fulfil our commitment to comply with the statutory requirements of the Race Relations (Amendment) Act 2000 and to take account of best practice in this area. To help promote a diversity culture, and improve our service to the wider and more diverse customer base we serve, all our staff are now required to include a diversity objective in their annual performance plans.

Developing our managers

This year we introduced new Leadership and Employee Competence Frameworks – with clear links to our Vision and Values – which identify the behaviours we value and wish to promote in the Commission. Both cover issues of diversity and include statements on zero tolerance of prejudice and unfair discrimination. The new competencies are now being used in both our recruitment and appraisal processes.

We also introduced a new Management Development Programme, which includes modules on Leadership and Diversity. Using 360° feedback it helps managers identify their own strengths and weaknesses against the template of our new leadership competencies. We will be adding new modules to the programme next year.

Developing expertise

We introduced this year a new Skills Development Programme, aimed principally at junior grades. This is designed to develop core skills, such as effective writing, to help people perform well in their current role and to develop people by helping them gain new skills and competencies and a greater awareness of the Commission's work.

We have also introduced a modular Customer Service Training programme. The programme seeks to equip all our people with a basic understanding of the concepts of good customer service and the opportunity to practice the skills required to provide good service.

We have also been developing an integrated approach to our induction training for new staff. The new programme, which consists of both technical and soft skills training, will be piloted from April 2002. The training material will be made available as a series of on-line learning packages later in the year so that anyone in the Commission can work through them, at their own pace, if they wish to update their skills or refresh their memory about a particular topic.

Learning from others

This year we set up and piloted job shadowing and mentoring schemes. The aim of both schemes is to promote wider opportunities for the development of our people, particularly those in under-represented groups.

Our key challenge next year is to fulfil our commitment to comply with the statutory requirements of the Race Relations (Amendment) Act 2000 and to take account of best practice in this area.

Taking the temperature

This year we commissioned NOP to carry out an employee survey, to elicit the views of our staff on the Commission and the way it is managed. We were pleased that 77% of our staff participated in the survey.

Whilst there were some very encouraging messages in the survey results, the report also highlighted areas where further improvements can be made. Feedback workshops with our staff created a valuable opportunity for direct debate between staff and senior management on the survey findings. We are using that feedback and the survey results, together with the findings from the Investors in People assessment, to make recommendations on how to address the key priority areas for attention that have been identified.

Bringing in new talent

We successfully ran a recruitment campaign to fill new posts as part of our review visits, regulatory reports and increased investigations initiatives. Over 900 applications were received and 30 new starters were spread across the three sites.

The following recruitment statistics for the Commission are published in accordance with the Civil Service Commissioners Recruitment Code. Our commitment to maintain a system of fair and open competition remains high. However, we are also committed to recruiting staff through the Government New Deal scheme. The 6 people recruited in this way this year are counted below under permitted exceptions. Also included as permitted exceptions are people employed on short-term contracts who were employed to cover for temporary staffing short falls.

Recruitment Statistics

Pay Band	Total number of appointments	Permitted exceptions to fair & open competition	Number of female staff	Staff of minority ethnic origin	Staff with a disability
1	22	10	9	8	3
2	23	4	17	5	2
3	38	5	28	9	1
4	7	0	4	0	0
5	3	1	1	0	1
6a	7	0	3	3	1
6b	0	0	0	0	0
SCS	2	0	1	0	0
Total	102	20	63	25	8

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SOUND GOVERNANCE

The Commissioners

The Charity Commissioners are appointed by the Home Secretary. There must be between three and five Commissioners (currently there are five). Two Commissioners must be legally qualified.



John Stoker is the Chief Charity Commissioner. He is the Accounting Officer for the department, and is accountable to Parliament for the proper use of funding agreed and provided by HM Treasury. His responsibilities for this are set out in a letter of appointment as Accounting Officer from the Treasury. An Audit Committee provides advice to the Chief Commissioner in his role as Accounting officer. The Chief Commissioner is also responsible for the accountability of the Official Custodian for Charities. Both the departmental accounts and the accounts of the Official Custodian are required to be audited by the National Audit Office annually and reported to Parliament.



Michael Carpenter is the Legal Commissioner with executive responsibility for legal services within the Commission.

The remaining three Commissioners are non-executive, and their appointments reflect important aspects of the charitable sector.



The second legal Commissioner is David Unwin QC. As the Treasury Junior Counsel in charity matters he acted for the Attorney-General in charity advice and litigation.



Julia Unwin OBE brings to the Commission 25 years of experience in the voluntary sector both in management and as a trustee.



David Taylor (Accounting Commissioner) is a chartered accountant with considerable experience of the charity sector, following many years in the business sector.

Under the Charities Act 1993, many of the statutory powers available to the Commission must be exercised formally by 'the Commissioners'. Because it would be impractical for the Commissioners, themselves, to act personally in every case, paragraph 2(1) of Schedule 1 of the Act enables the Chief Commissioner to appoint assistant commissioners for the proper discharge of these powers. Most experienced operational staff are therefore also designated assistant commissioners, and can operate formal powers under the Act within the specific areas of work for which they are responsible. The Commissioners remain accountable for all acts of their assistant commissioners.

The Board

The Board consists of the Commissioners plus three executive Directors. The Directors are:



Simon Gillespie – Director of Operations



Bill Richardson – Director of Resources (also the Principal Establishments and Finance Officer).

Executive Group

The Executive Group is a sub-committee of the Board, which also meets monthly. It consists of the Chief Charity Commissioner, the full-time legal Commissioner, and the three Directors.

The Executive Group's role is to support the Chief Commissioner in ensuring that the strategic decisions and plans of the Board are carried out. It considers and makes decisions on corporate management matters that affect the day-to-day operation of the Commission. The members of the Executive Group also have responsibility for strategic oversight of change initiatives within the Commission.

Risk management in the Commission

This year, we have further developed our approach to corporate governance by improving our arrangements for managing business risk. This follows on from the publication on our Website in November 2000 of a risk framework containing our top ten business risks.

We have spent this year identifying and mapping out business risks at an operational level and considering the effectiveness of the controls that are in place to manage these risks. Where controls are not as effective as we would wish, appropriate action to redress them has been identified.

The new arrangements, including a clear policy, guidance and suitable monitoring arrangements, will be piloted during the next financial year. Subject to the outcome of the pilot we expect to formally implement these



Rosie Chapman – Director of Policy

The Board meets formally once a month. It is responsible for strategy and the future direction of the Commission, and for monitoring its decisions to ensure they are carried out.

The focus of the Commissioners is on governance, whilst the Directors concentrate on management and delivery. The Chief Commissioner and the first Legal Commissioner provide the link between the two.

When the Commissioners exercise quasi-judicial powers themselves, decisions are taken by the Commissioners rather than the full Board.

arrangements in April 2003. At that point, the Chief Commissioner will sign off a Statement on Internal Control.

Resource Accounting

The Charity Commission's 2000–01 Resource Accounts were published on 31 January 2002. In the Comptroller & Auditor General's unqualified opinion the accounts gave a true and fair view of the Commission's state of affairs during the financial year reported.

2000–01 was the last year in which we were required to produce both Resource Accounts and cash-based Appropriation Accounts. From 2001–02 we will only produce and publish Resource Accounts. Resource Accounts provide us with more useful information than a simple record of cash paid out and received. They record the full cost of activities, eg in the use of assets, as well as cash spent. They provide incentives for us to improve the management of what the Commission owns and what it owes (its assets and liabilities). Finally they provide information on how it has utilised its available resources to meet its stated objectives.

The exploitation of the detailed financial and management information provided by the Resource Accounts is at a relatively early stage as is the full implementation of their planning component, the Resource Budgets. However development work is already well in hand and we are looking forward to using the information to achieve better value for money and greater efficiency and effectiveness in the Commission's performance in the future.

Openness:

**WE ARE ACCOUNTABLE
TO THE PUBLIC,
Parliament and the Courts**

ACHIEVEMENT OF OUR KEY PERFORMANCE INDICATORS – 2001/02

External indicators and Commitments	End of year achievement	End of year target	End of year position	Position at end of 2000/01
KPI1 Average time taken to process a successful application (days)	97 days	95 days	UA 2% ↑	117 days*
KPI2 Number of times legal authority exercised	3,854	3,500	Ach ←	3,817
KPI3 Number of times legal authority exercised which arose at our instigation	550	300	Ach ←	400
KPI4 Number of times guidance was given on charity governance or administration	23,129	22,700	Ach ←	21,549
KPI5 Number of times guidance was given on charity governance or administration which arose at our instigation	2,500	2,270	Ach ←	2,659
KPI6 % of charities monitored: £250K+	96.5%	100%	UA 3.5% ↑	
% of charities monitored: £100 – £250k	94.5%	90%	Ach ←	91% overall**
% of charities monitored: £10 – £100k	87.6%	85%	Ach ←	
KPI7 % of database entries complete and accurate	99%	90%	Ach ←	98%
KPI8 % of investigations where concerns substantiated and rectified	93%	90%	Ach ←	90%
KPI9 Amount directly protected	£25.8m	£24m	Ach ←	£28.5m
KPI10 Resources released for charitable use as a result of CC exercising its legal authority	£330m	£550m	***	£870m
KPI11 % of charities deriving benefit as a result of guidance given	13.05%	8.5%	***	8.9%
KPI12 Number of reports of abuse or poor practice	586	660	***	658

UA: Underachieve

Ach: Achieve

* This figure was only captured for the last five months of 2000/01 financial year.

** The percentage of charities monitored was not split into income groups last year – which was 91% overall.

*** These 3 impact indicators have been agreed with the Treasury, but there are no formal targets for them.

GUIDANCE PUBLISHED APRIL 2001 – MARCH 2002

The following is a list of the new and revised guidance we have published in this reporting period. It can all be viewed on our website. This year we included in our CC publications range a new 'significant changes' feature. This is an important new feature in which we note at the back of a publication the major changes from the previous version. This is to alert people already familiar with our guidance to the key changes and was included as a result of our customer feedback.

CC Publications

CC2	Charities and the Charity Commission
CC3	Responsibilities of Charity Trustees
CC3(a)	Responsibilities of Charity Trustees: A Summary
CC4	Charities for the Relief of the Poor
CC7	Ex Gratia Payments by Charities
CC8	Internal Financial Controls for Charities
CC18	Use of Church Halls for Village Hall and Other Charitable Purposes
CC20(a)	Charities and Fund-raising: A Summary
CC21	Registering as a Charity
CC23	Exempt Charities
CC27	Providing Alcohol on Charity Premises
CC33	Acquiring Land
CC35	Charities and Trading
CC38	Expenditure and Replacement of Permanent Endowment
CC40	Disaster Appeals: Attorney General's Guidelines
CC43	Incorporation of Charity Trustees
CC60	The Hallmarks of a Well-run Charity
CC62	Charities SORP 2000: What has changed
CC63	New Independent Examination of Charity Accounts 2001: Directions and Guidance Notes
CC64	New Receipts and Payments Accounts Pack 2001
CC65	New Accruals Accounts Pack 2001

Review of the Register publications

RR1	The Review of the Register of Charities
RR1A	New Recognising New Charitable Purposes
	New Guidance on charitable status and sport

Regulatory Reports

RS1	New Trustee Recruitment, Selection and Induction
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Operational Guidance

OG1	Orders and Schemes
OG18	Names of charities
OG38	Corporate trustees
OG39	Custodian trustees
OG63	Providing alcohol on charity premises
OG68	Management of village halls
OG79	Public Interest Disclosure Act 1998
OG83	Endowed charities: a total return approach to investment
OG84	Annual Returns (AR2001)
OG86	Trustee Act 2000
OGint15	Charities and commemorations
OGint32	Foot and Mouth outbreak: postponement and adjournment of general meetings

Other published guidance (website only)

Charities and programme-related investment
Guidance on electronic banking
Guidance for Charitable Registered Social Landlords
Charities and risk management
Maximising the use of our powers under s.26 of the Charities Act 1993
Charity Commission policy on charities and their alleged links to terrorism
SORP 2000 – Information Sheet 1

The Charity Commission

Telephone: 0870 333 0123

Minicom: 0870 333 0125

Website: <http://www.charitycommssion.gov.uk>

London

Harmsworth House

13–15 Bouverie Street

London EC4Y 8DP

Fax: 020 7674 2300

Liverpool

2nd Floor

20 Kings Parade

Queens Dock

Liverpool L3 4DQ

Fax: 0151 703 1555

Taunton

Woodfield House

Tangier

Taunton

Somerset TA1 4BL

Fax: 01823 345003

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