

The Future of the London Society of Chartered Accountants:

The case for independence

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Sponsors

Susan Field, Past President

Victoria Andrew, Past President

Executive Summary

This paper has been drafted to provide a resource for LSCA members debating and voting at the upcoming SGM or EGM. It is being issued to provide balance to the ICAEW papers. It does not necessarily reflect the sponsors' individual views in the debate, nor voting intentions.

Should the LSCA remain as an independent, member-led District Society, as it has been for over 150 years, working together in partnership with ICAEW, or should it transfer its operations to an ICAEW Network?

Although there seems to be general agreement that the case should be put for both options, there is a need to clarify:

- The facts regarding the operational differences, (as per the ICAEW pdf document "Revised Operational Frameworks and Future Ways of Working")
- The arguments for and against each option.

The Word document "Outline of Network Transition" is clearly biased in favour of ICAEW Networks, and its existence highlights the need for this paper.

In order to fully participate in the debate and understand what is being voted on, members will need access to a summary of what would be in any agreement between ICAEW and London (whether as an ICAEW Network or as an independent DS).

The original arguments in favour of transferring DS operations to ICAEW Communities (or Networks as they are now called) were never based on sound, convincing evidence.

All the issues identified in the original reports could have been resolved (and can still be resolved in the LSCA) without such radical, disruptive and unnecessary reform.

Nothing has been put forward to support the view that the proposed change is either desirable or necessary.

By retaining our operations within the current structure, the Society will continue to be member-led, with members retaining control.

The main part of this paper covers the following aspects:

- 1) Background
- 2) Perceived Risks: Legal, Financial and Reputational
- 3) Constitutional; Governance; Democracy
- 4) Independence: LSCA as a "critical friend" to ICAEW
- 5) Will a reduction in administrative burdens attract more volunteers?
- 6) Other reasons for volunteers to be attracted
- 7) Providing for our members
- 8) Financial and Resource Considerations
- 9) Membership Data

Under sub-headings 2-9, this paper examines the following:

- Pro Network arguments, and what is wrong with those arguments.
- The case for remaining independent and the alternative vision.

1) Background

The District Society structure has served the profession well for over a century.

A major change came just over twenty years ago, with the introduction of “Regionalisation”, whereby DSs no longer arranged their own premises and hired their own staff. These became the responsibility of ICAEW’s Regional team.

There were subsequent attempts by elements within ICAEW to abolish District Societies, but these attempts were not successful.

Indeed, it has been acknowledged in previous ICAEW papers that District Societies are an important and valuable part of the profession, and that if the District Society structure did not exist, it would be impossible to create something with the same structure or professional standing.

However, there have been increasing concerns about ICAEW’s perceived risks of exposure to liability and reputational damage for acts or defaults of District Societies, although in the 100 plus years’ existence of most DSs, no such risks have actually materialised.

This perception of risks has led to further reviews, culminating in a proposal to make District Societies part of the ICAEW.

Coupled with concerns about perceived risks, there have been additional concerns about decreasing involvement or relevance of DSs and, whilst some of these are justified, a major factor in this has been the continual and continuing reduction of the resources which ICAEW has devoted to DSs since Regionalisation

In December 2020, ICAEW Council voted to approve the setting up of a pilot scheme, whereby those District Societies who chose to do so would transfer their operations to an ICAEW “Community,” effectively giving up their remaining independence and becoming part of ICAEW. Because the vote was carried by a small margin, the message was very much “proceed with caution”. The proposed “Communities” have since been re-branded by ICAEW as “Networks,” to avoid confusion with ICAEW’s sector-based Communities.

Between December 2020 and October 2022, the number of DSs indicating that they wished to join the pilot increased from two to seven.

The intention with the pilots was always that DSs not joining the scheme could “wait and see” whether active members in the pilots felt that becoming part of the ICAEW had been a positive move, and then decide accordingly, on the basis of clear evidence.

However, between October 2022 and March 2023, there was a tipping point triggered by the publication of ICAEW requirements for those DSs choosing to retain their independence.

A significant number of DSs felt that the requirements were too onerous, and they had no option but to relinquish their remaining independence and become part of ICAEW. Some active members actually used the phrase “we had a gun to our head.”

The current situation is that all but four District Societies have either become Networks, or have decided that they will do so, with their historical DSs remaining in existence for legal reasons but as dormant “shells”.

London is one of four remaining DSs which have not committed to becoming an ICAEW Network. Whether to do so is now the subject of the upcoming debate and vote.

With over ¼ of the UK-based membership, there is no reason for London to transfer its operations to an ICAEW Network – just because that is what other DSs have done.

The London Society can establish itself as a beacon of excellence as a well-run independent District Society, providing a model for other DSs, who all have the option to revert to independence.

Given strong and inspirational leadership, the London Society has a great future ahead, and the potential to, once again, be a force to be reckoned with.

2) Perceived Risks: Legal, Financial and Reputational

Pro Network arguments, and what is wrong with those arguments

The removal of liability risk for the DS, its officers and committee members has been given as a reason to transfer LSCA operations to an ICAEW Network. There have also been concerns within ICAEW about the risks to ICAEW by association with LSCA (More recently, these concerns have been extended to risk of reputational damage to ICAEW by association with LSCA caused by poorly-run District Society activities).

The argument, based on anecdote, not evidence, is that members and 3rd parties do not see any difference between ICAEW and LSCA. The only evidence cited for this has been a 10-year-old survey of members which could not be produced when requested.

The risks are there whatever the structure. If LSCA transfers its operations to an ICAEW Network, the risks become those of the ICAEW rather than confined to the DS, and officers of an ICAEW Network could expose ICAEW to direct liability for their acts and defaults.

The adverse effects of this are apparent in those DSs which have already transferred their operations to an ICAEW Network. There have been numerous reports of local members being refused permission by ICAEW to run events (even those which were previously arranged), on the grounds that ICAEW's insurance policy will not cover them. Apparently, the ban extends to wine tastings!

Remaining Independent: The Alternative Vision

There is an alternative solution to all this, which has been put forward on many occasions and ignored, involving all of the following steps:

- incorporation (which is not just recommended, it should be compulsory),
- insurance
- clear separate branding of LSCA to distinguish it from ICAEW
- separate staffing, or staff sub-contracted to the LSCA, ensuring clear responsibility lines.

3) Constitutional; Governance; Democracy

Pro Network arguments, and what is wrong with those arguments

The simplification of AGM and Election processes has been given as a reason to transfer LSCA Operations to an ICAEW Network. But this goal can be achieved without such drastic measures. (See next page under "Remaining Independent: The Alternative Vision)."

Under the rules for ICAEW Networks, the role of Hon. Treasurer would be downgraded and the role of Hon. Secretary would be removed. The removal of voluntary roles is only an advantage if nobody wants to do them. If members want to do them, they are an advantage as they mean members are involved.

Under the rules for ICAEW Networks, ICAEW and existing office holders would have a say on the appointment of London committee members. This would include a right to reject candidates or to appoint additional individuals.

This is unlikely to be administratively less burdensome and it certainly will not be more democratic. Moreover, it implies a lack of trust in local committees to keep their own houses in order.

Such an approach will result in a committee which is less likely to be representative of the London membership as a whole or to ensure diversity of thought. The proposed system for appointment, rather than election of committee members, has the risk that it will become "jobs for the boys", ingraining group think and with candidates vetted for their views before appointment.

Remaining Independent: The Alternative Vision

The current structure of LSCA is democratic, retaining the ability of any member in London to be elected to Main Committee, without interference from other parties or the continuance of a self-selected group. At present LSCA Main and Executive Committees are made up of elected members supplemented, where necessary to fill gaps, by co-opts.

There has been an offer on the table since last year to carry out a comprehensive review of the LSCA Rules to streamline them and make them fit for the 2020s. Indeed, this work had already started, based on recommendations from ICAEW, but the proposals had to be withdrawn due to errors in carrying out the 2022 AGM procedures.

There is a simple solution to the current vacancy for Hon. Secretary, which does not involve the removal of the role.

4) Independence: LSCA as a “critical friend” to ICAEW

Pro Network arguments, and what is wrong with those arguments

No evidence has been provided for suggestions that DS independence runs counter to the best functioning of ICAEW and is detrimental to a culture of co-operation between the DSs and ICAEW. And, indeed, there is no historical evidence that this has ever occurred.

Transferring LSCA operations to an ICAEW Network will remove the remaining degree of separation between the LSCA and the ICAEW centrally, depriving both of independence of thought and vitality. Staff have already complained that volunteers criticising the ICAEW make them feel uncomfortable. Under a Network, volunteers will not even be allowed to do that.

The idea that an ICAEW Network is prohibited from making representations to third parties on policy issues in the name of the ICAEW Network is wholly unacceptable. The ability to do so has always been a strength of the District Societies – it has never been taken lightly but separate representations have often been made in the past to bodies in respect of local matters.

Remaining Independent: The Alternative Vision

ICAEW is made stronger by listening to the voice of its members; diversity of opinion is to be welcomed. Members should be able to challenge ICAEW through the medium of their DS, and to make representations to 3rd parties on policy issues (within agreed guidelines).

Retaining LSCA’s independence will provide members with an independent means of expressing their voice which is to the ultimate advantage of ICAEW (without it, dis-affected members’ real alternative is to air their views through the Press). It will also provide the ICAEW with independent input on their policies and approach (which ICAEW should welcome rather than scorn).

There are sufficient examples in the past of District Society pressure improving the central decision making of ICAEW. It is rare, but when it has happened, it has proved correct: ICAEW is, after all, a members’ body. It is unlikely that such pressure can be brought through a committee wholly under the control of the ICAEW administrative structure.

5) Will a reduction in administrative burdens attract more volunteers?

Pro Network arguments, and what is wrong with those arguments

It has been suggested that volunteers are put off serving on their DS committee because of the burden of the work, including accounting, legal or regulatory obligations or governance processes. However, DS committee members have not been surveyed to see how they feel about the work involved in running a DS. Any evidence has been just the odd anecdotal comment and these mainly from smaller societies without the resources that London should have.

Many committee members and office holders accept any “burden” as a necessary part of retaining control over their destiny; some enjoy it and positively thrive on it.

The proposals will include ICAEW Network office holders providing accountability reports to ICAEW: that, together with continuing to run the old DS structures, will wipe out any saving in the administrative burden.

Remaining Independent: The Alternative Vision

If there is an issue with volunteers being over-burdened, it has been created by the reduction in resources and it can be addressed by fair and proper allocation of financial and staff resources. By following the CASSL model, where every committee member has a role, is accountable for carrying out that role, and is trusted to do so, the load can be spread.

6) Other reasons for volunteers to be attracted

Pro Network arguments, and what is wrong with those arguments

It has been suggested that transferring LSCA operations to an ICAEW Network will strengthen member involvement. The reduction of the District Societies to subsidiary committees of ICAEW will do the reverse.

The status of LSCA will be diminished if the Society’s operations are transferred to an ICAEW Network.

It is not clear how belonging to an ICAEW community is supposed to inspire a sense of local interest or belonging.

It is unlikely that being an “office-holder” on a subsidiary committee of ICAEW, where that “office-holder” has to refer back to ICAEW for almost all permissions to do anything, will be as attractive as the current position where the office holder has at least some degree of freedom to express their own views and organise (within the remit of their own committee) their own events. ICAEW staff have the power to say “no” to volunteers.

Therefore, it is very likely that the role of office-holder will become less attractive, and the influence and reputation of the office holder and the London “Network” will become diminished.

One of the arguments use by ICAEW in favour of DS operations being transferred to ICAEW Networks has been the success of sector-based communities.

They are certainly successful in terms of e-mail sign ups. But experience has shown that they are at best variable when it comes to Active Member involvement. Many of them appear to be led and driven by ICAEW staff, and there is no visibility of the community “advisory boards” – some have no volunteer management at all, and member involvement is reduced to passive consumption of events and information. This contrasts heavily with the pre-regionalisation (and immediate post-regionalisation) DS structures where visibility of the DSs was high; they often featured in local newspapers and magazines, with Office Holders being invited to business and local government events, and even serving on local government committees .

Remaining Independent: The Alternative Vision

If the LSCA retains its independence, its visibility within London can be increased, including its visibility with London members. Increased visibility will make LSCA more attractive to those who might wish to become committee members or office holders in their locality.

Another attraction of LSCA independence is that it allows active members the discretion to run the Society’s affairs in the way that best fits London members, and it will not put off the involvement of members who see the ICAEW as too remote or as a regulator rather than a members’ body.

An independent LSCA can represent the independent views of London members without the concern that members have about conflicts of interests with being part of the ICAEW regulatory

structure. There are existing examples within ICAEW of members who will not get involved (or have been prohibited by their firms from getting involved) in ICAEW because of conflicts with ICAEW's regulatory role. This problem, which is growing, is not an issue for the LSCA or other independent DSs because they have no regulatory role.

Many members are attracted to be involved in the management of District Societies, (and then to progress within the ICAEW if they so wish), in part because they are semi-independent. Members can, if need be, say what they think and, via the committee, they have control over the Society's activities to do what they believe is in the interests of their local members.

7) Providing for our Members

Pro Network arguments, and what is wrong with those arguments

One of the arguments used in favour of ICAEW Networks is that this structure will increase member involvement. Not only has no evidence been produced for that suggestion, but there are reports from early adopters that there has been no increase whatsoever in member engagement. Comments have been made that transferring DS operations to ICAEW Networks will create "greater cohesion with ICAEW member strategy" and enable ICAEW to have a better "voice" with the membership. It has been suggested that having a separation between the District Societies and the ICAEW would be "detrimental to the culture of co-operation" although there is no evidence that there was any such a lack of co-operation even prior to "regionalisation" when the District Societies were almost entirely autonomous entities.

Remaining Independent: The Alternative Vision

LSCA's current position and strategy is that it is an independent, member-led organisation, working together in partnership with ICAEW.

Whether or not LSCA's operations should be transferred to an ICAEW Network, is not the most important question we should be asking ourselves.

What matters above all else is supporting ICAEW members and students in London.

LSCA suffers, more than any other DS, from having to compete:

- with ICAEW's in-person events in London, which are attended by ICAEW members in London,
- with in-house courses and events arranged by the largest firms (whose biggest offices are in London).

And, like all DSs, LSCA has to compete with ICAEW's provision of online courses and events which are available to all ICAEW members – in this country and overseas.

LSCA active members need to focus on what the Society can offer to its members which is not already being provided by others. There are already pockets of excellence – for example CPD courses provided by Branch & Area Societies outside working hours, and the series of Fintech summits offered over the past couple of years. Should the focus be on networking and support, or on the imparting of knowledge? Or both?

In this context, the whole issue of remaining independent or becoming a ICAEW Network is something of a red herring.

8) Financial and Resource Considerations

Pro Network arguments, and what is wrong with those arguments

It has been claimed that the Network proposals will also save money. However there has been no attempt to quantify any cost saving or additional cost for ICAEW. There is unlikely to be much saving in costs for Regions, as staff will be supporting communities and dormant DSs. In any

event, the costs are a minor part of ICAEW budget and the issue is not around costs – the case for an independent DS rests on its value to members, not on the relatively small costs involved. The issue of restoring ICAEW services to LSCA following their removal last year has become conflated with the independence versus networks debate. These are entirely different issues. There will be considerable constraints on what an ICAEW Network may do in terms of use of funds generated from its own activities, the approval needed for events and activities, and most operational matters, which are currently in their own hands. An ICAEW Network will not have the discretion to use its own funds to employ subcontract staff where ICAEW centrally does not provide the resources needed.

Remaining Independent: The Alternative Vision

Members in an independent District Society currently have control over their own funds (to the extent that they raised them through their activities) to do what they want in the interests of their local members.

9) Membership Data

Pro Network arguments, and what is wrong with those arguments

We have been told that transferring operations to an ICAEW Network will result in better use of data and communications. But this has to be subject to member opt in/out and communication preferences. So, like ICAEW's sector-based communities, members will not be compelled to join. District Societies have had many problems accessing membership data because of GDPR; other organisations have found ways around this apparent problem. These solutions have been suggested to ICAEW but not taken up. The ICAEW "solution" has been focussed on converting DSs to ICAEW networks rather than adopting solutions which would resolve the issues and retain independent DSs.

It has been suggested that ICAEW Networks enable the convening of groups of members on a permanent or temporary basis or for one off meetings or consultations. District Societies have been doing that ever since their formation.

Remaining Independent: The Alternative Vision

As mentioned above, as an independent organisation, LSCA can follow best practice in other organisations which have found a legitimate way around the GDPR problem.