

Heyday Review

Christopher Kelly

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Executive Summary

This report reviews the experience of Age Concern England (ACE) in planning and launching an ambitious new membership scheme known as Heyday. The scheme failed fairly spectacularly and led to the publication of a critical Regulatory Case Report by the Charity Commission. It was wound up in March 2009 in the lead up to the merger of ACE with Help the Aged on 1 April 2009 to form the new charity Age UK. I was commissioned to undertake the review jointly by the outgoing chair of ACE and the new chair of Age UK. The purpose was to seek to draw any lessons from the episode for the benefit of the new charity.

With the advantage of hindsight, the failure of the scheme should not have come as a great surprise. There were critical flaws both in the underlying strategy and in the way in which it was executed. The market research on which it was based was inadequate and the governance process did not provide sufficient effective challenge.

The strategy was flawed in that:

- The two objectives of the scheme – radically to change the nature of the involvement of the charity with its beneficiaries and to set up a greater, more sustainable funding stream – were thought to be mutually supportive. Handled differently, they might have been. But in practice there were two different visions of the scheme within the charity and its trading arm and these were never properly reconciled.
- An early decision was taken to go immediately for scale rather than to build up the scheme more gradually over time. The consequence was that substantial infrastructure had to be created from the outset, which greatly increased the overhead, added to the time pressure to start earning revenue and created substantially more financial and reputational risk.
- It was assumed that the commercial partners providing the Heyday branded products would be willing to make substantial contributions to the start up costs in return for the greater revenues a successful scheme would bring. In practice much less came from this source than had been anticipated. It now seems possible that most if not all of the contributions which were made could have been secured even without Heyday.

The main deficiencies in the management of the programme included the fact that there was insufficient clarity about who was really in charge, which led to a

breakdown in the relationship between some of the main players. There was also rather weak observance of normal programme and project management disciplines.

The market research which was done appeared to show that there was a potential market for a membership scheme like Heyday. But the research never tested whether what was actually going to be offered to members was something which they would want to buy in any quantity. This mistake was the more surprising in the light of the consistent finding that potential joiners would be more likely to judge the scheme on the basis of the financial advantages it brought them than in terms of the more ephemeral charitable benefits.

The project was allowed to proceed despite its many flaws. It is difficult to believe that had there been adequate critical scrutiny by the 39 strong board of Trustees, or by the separate boards of the trading company, that would have been permitted. The Charity Commission's Regulatory Case Report found that in taking decisions about Heyday the Trustees were "unable to demonstrate that they exercised a sufficient oversight and critical challenge in making relevant decisions against a clear and robust risk framework". I agree.

This review discusses each of these points in more detail. The underlying issue is how a major charity like ACE, with a respected Director General, a successful record in bringing new financial products to market and with boards that included experienced individuals managed to fail quite so badly.

Not surprisingly, the explanation is not simple. There are four main points:

1. The way the key issues were presented to the ACE Trustees left a lot to be desired. There was no shortage of papers. But the important points were not always brought out in a way which made them easy to understand or discuss – particularly for a Trustee board with 39 members.
2. The project was allowed to acquire a momentum of its own, which it must have been very difficult for any one individual to challenge. It did not help that a third of the Trustees changed when the project was already under way. New trustees would have had to be very certain of their ground, very quickly, to challenge something which already had so much invested in it, emotionally and financially.
3. No time was built into the programme to stand back at intervals and take stock in a self-critical way as key decision points were reached. Challenges were made at different times by different people. But they seem to have been regarded as something to be handled rather than opportunities to reflect.

4. The approach taken – to go for scale from the outset – was bold. It was also very risky. But no serious attempt appears to have been made to manage or mitigate that risk. This is the more surprising in that I have little doubt that the need for risk management was recognised intellectually. The issue may therefore be one of sufficient practical experience in dealing with it among the major players.

There are potentially important lessons here for other charities contemplating major development programmes.

This is a critical report. I should therefore record that I have been impressed by the commitment to the needs of older people displayed by so many of those involved in Heyday and by the hard work put into trying to make it a success. I have no doubt that the new charity Age UK will want to distance itself from Heyday's failure. It would be unfortunate if in doing so they lost sight of its underlying purpose – to increase engagement with older people and to do so at a point in their lives when they are still able to influence some of the causes of later poverty, ill health and isolation.

Heyday Review

1. Introduction

On 30 May 2006 Age Concern England (ACE) launched a new membership scheme known as Heyday. The expectation was that 600,000 members would have joined by the end of March 2007, 1.5 million by the end of March 2009 and 3 million within 5 years. By that time the scheme was expected to be making a substantial profit. Revenue was intended to come from a combination of annual subscriptions and from commission on the sale of goods and services.

To support an organisation of this size an expensive IT system was procured, a call centre in Devon was made ready and a number of organisers were recruited by ACE and by local Age Concerns. A total of 96 staff was employed by ACE on Heyday business at the point of launch. Local Age Concerns employed a further 45 to 50 organisers.

In the event the scheme failed to attract members in anything like the expected numbers. It soon became apparent that the scale of the operation far exceeded the demands likely to be placed on it. The actual number of members by 31 March 2007 was only 46,000. About 29,000 of these had come from an existing membership scheme (ARP 050). In January 2009 there were fewer than 40,000 Heyday members (including free members). In March 2009 the ACE Trustees decided to close the scheme before the merger with Help the Aged to form the new charity, Age UK, on 1 April 2009.

The total financial losses to the charity from the Heyday scheme are estimated to have been £22 million, including around £0.5 million closure costs.

In 2006 the Charity Commission started an investigation into Heyday after concern had been expressed to it and after some publicity in the periodical Third Sector. On 9 February 2009, two and a half years later, the Commission published a Regulatory Case Report on their website*. The report made a number of criticisms of the way the Heyday project was conducted. Its overall conclusion (paragraphs 72-73) was:

“In summary, the Commission has found that in relation to the Heyday project and the decisions made, the trustees are unable to demonstrate that they exercised a sufficient oversight and critical challenge in making relevant decisions against a clear and robust risk framework. The Commission also

* <http://www.charitycommission.gov.uk/Library/investigations/pdfs/rcrageconcern.pdf>

found that the narrative and financial reporting in relation to the Heyday project was not presented in a sufficiently transparent way, which would allow donors, beneficiaries and the general public to readily understand the full cost or nature of the activities conducted and the benefits derived by the Charity and its beneficiaries from the project.

This fell short of the standard the Commission would expect of a large national charity embarking on, and carrying through, such a substantial project over a long period.”

The Charity Commission also criticised some aspects of the approach the charity had taken to the distinction between charitable and non-charitable spending and the timeliness with which it had addressed the constitutional issues arising from the creation of a new class of members. The latter point was potentially significant because it could have invalidated decisions made by ACE members at meetings of the National Council on Ageing.

One of the recommendations made by the Commission was that an independent external review of the Heyday project should be conducted. At the end of December 2008 I was commissioned to undertake this review by the outgoing Chair of ACE and the Chair elect of Age UK. I presented my findings to a meeting of the ACE Trustees on 10 March and to the Chair and Chief Executive of Age UK on 11 March. This is my full report. I believe it is to the credit of those concerned that it is being published.

Why it matters

The Charity Commission noted in its report that ACE was one of the largest and most respected charities in the UK. Its Heyday experience matters both because of the significant amount of money spent on it for little obvious return and because of the potential reputational damage to ACE and its successor body, and possibly to the wider voluntary sector.

I have not seen it as my task to give a blow by blow account of what happened, nor to attribute blame. The purpose of my review is to identify the main lessons for Age UK, and possibly for the wider voluntary sector. I suspect that the ACE Trustees were by no means unique in the difficulties they faced in exercising appropriate governance over a substantial and innovative project championed by a respected chief executive.

Methodology and acknowledgements

My terms of reference are attached as an appendix.

I began my review on 1 January 2009. I have had access to a wide range of relevant papers. I have also had the advantage of seeing detailed confidential reports by independent advisers on the legal and financial aspects of Heyday prepared as part of the due diligence process for the new charity. These reports overlapped considerably with my own terms of reference. I have therefore drawn significantly on them. My confidence in my conclusions is increased by the fact that where we overlap we take essentially the same view.

My other main source of information has been interviews with a wide range of individuals involved with the Heyday project, some of whom are no longer associated with the charity or its trading subsidiary Age Concern Enterprises Limited (ACEnt). The story I was told was remarkably consistent, allowing for different perspectives and degrees of involvement, though with some differences of emphasis. I am grateful to my interviewees for their cooperation and for what I believe to be the open and frank way they approached our conversations.

I am particularly grateful to my liaison in ACE, Ian Nowell. His efficiency and unswerving good humour made my task a great deal easier.

The next section provides a short summary history of the project to help set what follows into context. Section 3 highlights the findings for each of the main parts of my terms of reference. Section 4 sets out my main conclusions. The final section draws out what I believe to be the main lessons.

2. Context

2.1 Age Concern England: Its purpose and structure

ACE was an unincorporated association governed by a constitution. It was one of the largest charities in the UK and one of the most prominent of those concerned with older people.

Its object was “to promote the welfare of the aged in any manner which now is or hereafter may be deemed by law to be charitable”. The powers to achieve this granted by its constitution included:

- To work in partnership with other organisations with a similar goal.
- To encourage, promote and organise direct services appropriate to the needs of elderly people – both individuals and groups.

- To engage in research, and the provision and publication of information.
- To establish or assist other organisations to support this work.

Its mission was described as being “to promote the well-being of all older people and help make later life a fulfilling and enjoyable experience”.

ACE was a member of a federation of 343 independent charities known as Age Concern, the federation (“the federation”) that share a commitment to making later life fulfilling, enjoyable and productive. Its relationship with these local Age Concerns was not always easy.

ACE employed about 1,000 staff. Its expenditure in 2007-08 was £86.3 million. Its income in the same year was £79.9 million.

A substantial part of its income came from trading subsidiaries. The most significant of these was ACEnt. ACEnt continues to exist after the merger. It earns commission from the sale of financial products, principally household and travel insurance. This commission is shared on a formula basis with local Age Concerns.

ACEnt’s typical customer is in their late 60s or 70s. ACE originally entered the financial services market because of a perception that existing providers discriminated against older, poorer customers. So, for example, ACEnt household insurance typically offers a lower than usual minimum sum assured. Its travel insurance has no, or higher age limits and covers a wider range than usual of pre-existing conditions. Other products offered through the trading subsidiaries include funeral plans and an emergency alarm service (through a company called Aid Call). ACEnt, Aid Call and a number of other companies not currently trading were structured as subsidiaries of Age Concern Holdings Limited (ACHL). This company was 100 per cent owned by ACE and gift-aided 100 per cent of its profit to it. Turnover in ACE’s trading operations grew from £6.1 million in 1993-94 to £44.7 million in 2005-06, when its profit started to decline.

ACEnt and ACHL both had their own boards of directors.

2.2 A brief history of Heyday

Heyday was conceived as a membership scheme open to anyone over the age of 18, but targeted at those aged 50 and over. It was intended to be built round five pillars:

- Information, delivered through a magazine, newsletter and website.
- Products and services tailored to the needs of the audience.

- Special offers and promotions, again tailored to the needs of the audience.
- Voice and influence.
- Social networks and interaction.

It was intended that the bulk of its funding would be provided by commercial partners against the expectation of higher earnings from increased product sales. Some further income would come from membership fees, though there was intended to be a substantial number of free members.

The idea of a membership scheme had been current in ACE for some time during the late 1990s, not least because of the success of similar schemes in the US, Denmark and Australia. It gained traction with the appointment in 2000 of a new Director General promoted from within the organisation who raised it as a potential development at his appointment board. After a fairly protracted period of research, discussion and modelling, and one false start, individual membership was adopted as one of five corporate priorities by the ACE Board in March 2003.

The idea had two main drivers:

- Increasing recognition on the part of the charity that its legitimacy required it to be able to show that it was an organisation not just for older people but also of older people, and that that would be likely substantially to increase its influence. For some time envious eyes had been cast on the power of the grey lobby in the US and its ability to influence policy makers there.
- Concern in the trading subsidiary that its market was declining as its existing customer base died off and was replaced by a more affluent generation with a different set of life experiences. They saw the need to broaden their market base to engage a more diverse population of younger older people, who would not necessarily engage with the Age Concern brand.

At the time, most thought that there was a happy symbiosis between these two objectives. A membership scheme targeted at those aged 50 or over would give the charity greater legitimacy and clout in its campaigning and policy work. Simultaneously it would provide a greatly expanded and more affluent market in which to sell products, the profits from which would finance the membership scheme and increase the funding available for other activities. In practice these dual objectives were intimately bound up with some of the later difficulties.

A first draft of a business plan for what at that stage was called “Project Panama” was discussed at a joint meeting of the ACE Finance Committee and the ACEnt Board on 31 October 2003. This plan, subsequently referred to as “Heyday V1”, was progressively developed by ACEnt staff over the next few months.

In November 2003 a special meeting of the ACE Trustees agreed to spend £0.5 million to progress the plan further. Four “showstoppers” were identified which needed to be satisfied for the plan to go ahead:

- There should be further evidence that core messages about membership would be attractive to the potential target groups.
- There should be sufficient investment available from commercial partners on acceptable financial and commercial terms.
- The business plan should be robust.
- There should be support from the federation.

The Trustees recognised the scale and risks of what they were taking on. If successful, the scheme would transform the charity. The minutes record that further development would be “strictly monitored and controlled with rapid evasive action in the event of failure” and that ACE should “complete a full review of the corporate governance of ACEnt to ensure its adequacy in view of the growth in the business and the scale of this project”.

In early 2004 a Heyday manifesto was prepared with the help of local Age Concerns to explain the proposal to members of the federation. The manifesto went through several drafts before the final version (“Manifesto 3”) was agreed. Following a great deal of effort by ACE and ACEnt staff to promote the scheme, federation members voted in favour of supporting it by 85 to 55 at the Age Concern Assembly on 26 May 2004. This was by no means an overwhelming majority. But I am told that not all of those who voted against were necessarily opposed in principle. Some of them simply wanted more information first.

It had taken 4 years to get to this point following the appointment of the new Director General. The minutes of the November 2003 Trustees meeting and the text of the manifesto show that those concerned now felt under some time pressure. The manifesto identified several reasons why it was thought necessary to proceed without delay – the expected sale of Saga by its current owners and the greater competition which might result, changes to be made to financial services regulation with effect from January 2005 and the likelihood of a general election in 2005. The relevance of the election was that this was thought to be the time of greatest interest in the condition and interests of older people, thus maximising the chances of an effective launch. In the event the launch came as much as a year after the 2005 election.

On 9 June 2004 the ACE Trustees considered a draft of the business plan and agreed the investment of £5 million of ACE (i.e. charitable) funds. At that point it was anticipated that the scheme would be launched in April 2005.

A new Chair of the ACE Trustees was appointed in July 2005. The outgoing chair became Chair of ACHL and rejoined the ACE Trustees in that capacity.

There then followed a sequence of other meetings in which the business plan was further discussed and refined. In the process the launch was delayed first to September 2005, then to October 2005 and finally to 30 May 2006. During this period a contract was signed with IBM for the delivery of the necessary IT infrastructure. Once signed, the contract increased the time pressure because of the desire to get in revenue quickly to offset the costs which began to be incurred.

Until this point the scheme had been largely led from within ACEnt. In February 2005 a Membership Director was appointed from outside the organisation, reporting to ACE's Director General. By the autumn she had resigned and a Heyday Launch Director was appointed from inside the organisation, also reporting to the Director General.

Approval for the launch was given unanimously at the ACE Trustees meeting in March 2005. Further discussion in the ACE Trustees and its Finance Committee and refinement of the plan went on until launch.

In November 2005 a Heyday Management Team was created "to provide oversight and management of the programme". This was widely regarded within the organisation as the Director General taking control and caused some resentment. The team was chaired by the Director General and met weekly. It included four key ACE executives and four core Heyday/ACEnt staff.

Launch finally happened on 30 May 2006.

At the time of the launch the business plan was still projecting membership of 600,000 by the end of 2006-07 and 1.5 million by the end of 2008-09. To service that level of demand, 96 staff had been taken on in ACE and ACEnt, including a number in the ACEnt call centre in Ashburton, Devon. 45 organisers were employed nationally and a similar number by local Age Concerns.

It soon became clear that the number of members was unlikely to reach anything like those expected. By 31 March 2007 there were only about 46,000. Of these about 29,000 had transferred across from an existing small membership scheme called ARP050. Only 17,000 were paying members. By the end of January 2009 the total membership had shrunk further, to just under 40,000.

The failure of the launch caused mutual recrimination between ACE and ACEnt and much unhappiness among local Age Concerns. The consequences included some publicity in Third Sector and the exchanges with the Charity Commission which

culminated in the 2009 Regulatory Case Report. The Chairman and Managing Director of ACEnt both left.

It took a while for the organisation to react to what had happened. But a more restricted membership scheme was still regarded as being viable. During 2006 the project was scaled back and a number of the staff employed on Heyday were made redundant. Local Age Concerns also released or redeployed their Heyday organisers.

In January 2007 a revised business plan “Heyday V2” was agreed under which Heyday was geared towards much lower member numbers, allowing a drastic reduction in the cost base. The contract with IBM had been terminated and a new, cheaper contract with a different supplier had been negotiated for the magazine. Marketing was redirected to bulk selling of memberships to employers.

This did not really work either. On 13 June 2007 the ACE Trustees approved “Heyday V3”. The new plan focussed on Heyday becoming a modestly sized, membership scheme with slower growth being achieved at a more affordable level and with an increased focus on the social purpose of membership. Heyday was no longer to be treated as an investment to generate future income. Instead it would be regarded as a mechanism for achieving social impact while engaging with and acting as a voice for members.

That still came at a considerable price. The 40,000 or so members, of whom only just over a third was paying subscriptions, were costing the organisation about £0.8 million a year. The number of staff had been reduced to 10.

In March 2009, while this review was in progress, the ACE Trustees decided to close Heyday, before the then imminent merger with Help the Aged. At that point the total cost of the scheme was estimated to have been £22 million, including an anticipated £0.5 million of closure costs. £6.7 million had been spent on the IT system commissioned from IBM. The system proved to have been over-specified for the numbers actually achieved and had experienced some problems in its operation, particularly around the time of launch. It was therefore abandoned, with the costs being written off.

3. Findings

The obvious question is how it was that after so much preparation and research the organisation ended up with a product that so few people wanted to buy.

3.1 The strategy underlying Heyday

As already indicated, Heyday had twin objectives – to build a membership base to increase ACE’s legitimacy as an organisation operating on behalf of older people and to create a larger market place for the sale of the products of its trading subsidiaries.

There is nothing in the Heyday experience that casts doubt on the importance of the first objective. An organisation that purports to be looking after the interests of older people is bound to have greater clout in pursuing its campaigning and policy objectives if it can demonstrate that its concerns stem from the direct experience of large numbers of those same people, and that they share those concerns and the priority to be attached to them. It would be even better if older people could be mobilised to do some of the lobbying themselves. It might be expected that policy formulation would also be better grounded.

What must be more open to question now are the propositions:

- That it is possible for a charity targeted at the elderly to widen its appeal to attract a different group of younger older people who may be retired but who do not necessarily regard themselves as old, nor particularly vulnerable - even with a different branding.
- That this group of people have a set of needs not currently met by the market which make it possible to tailor distinctive products which they will buy in sufficient quantities to make the operation worthwhile.

Some of those I have interviewed have argued that the market research, and the experience of membership organisations in other countries, gave them some reason to believe in the feasibility of both propositions. The implication would have to be that the failure of Heyday was one of implementation, not of concept. Certainly there were a significant number of shortcomings in Heyday’s planning, which I consider later. But I do not believe that to be the whole story. In my view the market research provided nothing like as strong support for the basic Heyday offering as was believed by the ACE Trustees at the time. I discuss that in Section 3.2.

It may be true that the success of Saga demonstrates that there is a distinctive market among this part of the population which can be accessed by the right branding and appropriate marketing. But if the new merged charity wanted to exploit

that it would have to be very certain both that its own branding was appropriate and that it had something distinctive to offer.

Apart from the question of whether a market for membership really does exist, the Heyday strategy was in my view flawed for at least three other reasons:

First was the belief that it was possible simultaneously to pursue the two objectives of building a membership base for the charity and selling products to them, and that they were mutually supportive. That was an attractive idea and in other circumstances might well have been feasible. But in reality there were two competing visions of the appropriate membership model. The charity wanted to build in much more charitable purpose from the outset, which would have to be paid for in some way. ACEnt wanted a free scheme to build up a market for their products, to which other aspects could be added later. Membership fees could be introduced for additional services once membership was fully established. I was told by a number of ex-ACEnt employees that it was the abandonment of free membership that had caused the scheme to fail, seemingly forgetting that the business plan had always included fee-paying members.

The significance of this divergence of view was not fully understood at the time. Until quite late in the process a compromise approach was being taken. The result was confused responsibilities and a virtually inevitable tension between the leading players in the charity and in the trading company.

It is now apparent that Heyday would have been more successful if it had been conceived:

- Either as a membership scheme led from the charity in pursuit of charitable objectives – which would have implied a continuing resource cost though it might have widened the trading company's market to some extent.
- Or as a mechanism to create marketing opportunities for the company. In that case it could have been led unambiguously by ACEnt and would have to justify its existence against normal criteria for return on investment.

The second error in my view was to go for scale from the outset. A more normal commercial approach to the introduction of an innovative product would have been to test market first in a defined area and only to go for a national launch when appeal and profitability had been demonstrated. The approach taken with Heyday was to go straight for national launch and to assume fairly instant success. That implied the creation of a substantial infrastructure, including a large IT platform, and greatly increased the risks of failure. The large overhead, running at several hundred thousand pounds a month, increased the pressure to begin to deliver returns as quickly as possible.

The decision to go for a big bang approach was taken at an early stage of the process and with little visible analysis or discussion. It was already a feature of the first version of the business plan discussed by the ACE Trustees. I was told it reflected:

- A concern that unless the organisation moved swiftly someone else would take the market away from them.
- A conviction that it would be difficult to design a pilot which satisfactorily tested all the features envisaged for Heyday – a magazine, a website, a raft of publications, a call centre, a data base and so on – without incurring disproportionate costs.
- A belief that commercial partners would not be interested without some promise of scale.

If these were the reasons, the first and third look a little naive now in the light of actual experience. I suspect that what really happened was that some of those concerned became carried away with the strength of the vision.

The third strategic mistake was the belief that it would be possible to finance a large part of the start up costs by obtaining unreturnable contributions from product providers. Like the all or nothing approach, this belief was also a feature of the first edition of the business plan. Start up costs – that is the net costs incurred before the scheme moved into profitability - were then expected to be £22.5 million. Only £5 million of this was to be provided by ACE. The remainder was to come from commercial partners.

The contribution expected from commercial partners was important for two reasons. It allowed the ACE Trustees to believe that if things went wrong the financial exposure of the charity would be limited to £5million. That must have seemed like a relatively small sum to risk against the very substantial returns that were being contemplated. It also gave them the comfort of thinking that the business plan was sufficiently robust to convince commercially-driven businesses to invest significant amounts of their own money. The ACE Chair noted at the Trustees meeting in June 2004 that the validation of corporate partners was worth more than any ACE-commissioned research and advice. This is a view that was repeated to me several times during my review.

It is worth noting therefore that a feature of the discussions throughout the period leading up to launch was that the then ACEnt Managing Director, who was responsible for the negotiations, appears to have been consistently over-optimistic about the amount that could be secured from commercial partners. Assurances were frequently given that the full amount envisaged would be forthcoming. At one stage (the June 2004 meeting of the Finance Committee) it

was suggested that there was capacity to raise as much as £50 million for the scheme, with £26 million being mentioned as the likely amount. As time went on and launch approached, the Finance Committee became more nervous about this when little appeared and the identity of some of the promised sponsors changed.

In reality, it appears that no commercial company really bought into the scheme quite in the way anticipated.

The total amount eventually secured in up-front payments was no more than £9.5 million - £7.5 million from Fortis Insurance Limited (Fortis), who took over the insurance book previously held by Norwich Union, and £2 million from Dignity Pre-Arrangements Limited (Dignity). There was also provision for a further payment of £3.75 million in instalments from Fortis if certain sales targets were exceeded.

It became apparent during the due diligence process and in the course of this review that neither payment could really be regarded as being tied to Heyday. The Fortis payment was, in effect, a payment for the value it was securing in taking over the existing insurance book. No doubt the expectation of increased returns from Heyday was one of the relevant factors. But the company has not reopened the deal despite Heyday's closure. The Dignity payment was in return for the sale to them of a 25 per cent equity share in another company. Credit for it was removed from the Heyday business plan in January 2007. The probability is that most if not all of both payments could have been secured by ACEnt even without Heyday, and would therefore have been available to be transferred across to the charity (and potentially to other members of the federation) in the normal way as part of the profits of the company.

The implication is that the ACE Trustees were mistaken on two counts:

- First the financial exposure of the charity was not really limited to £5million. Its anticipated exposure in terms of funds which could otherwise have been devoted to other charitable purposes was at least £14.5 million (£5 million plus £9.5 million). Arguably its actual exposure was even greater than this, equal to the full £22 million losses made on the project.
- Second, I have not seen any evidence that the companies spent a great deal of time assessing the Heyday business plan. They did not need to.

It has been put to me that the precise status of the £9.5 million does not matter, because everybody was clear that it was to be spent on Heyday, and that it is impossible to determine at this stage how much of the Fortis payment was in respect of their expectation in relation to the existing book (whose value to them

was likely to decline) and how much because of a belief that the book would grow because of the success of Heyday.

I do not find either argument particularly convincing. At the very least there was some muddled thinking involved. I have seen no evidence of a Trustee decision to invest more than £5 million of the charity's money in Heyday.

I am conscious of the enormous benefit of hindsight, as I have tried to be throughout this review. Even so, I am slightly puzzled by the apparent willingness of the ACE and ACEnt Boards and their advisers to accept that substantial payments could be expected from the commercial partners. The provision of unremunerated capital in this form would on the face of it have been an unusual arrangement.

3.2 The research on which Heyday was based

The Heyday proposition was based on two types of research.

The first was the considerable knowledge that already existed in the organisation of successful membership schemes in the US (the American Association of Retired Persons or AARP), in Denmark (DaneAge) and in Australia (the National Seniors Association). This knowledge was reinforced by a number of visits made by ACE staff to these countries from 2001 onwards. It may be that in arguing by analogy with these schemes insufficient attention was given to the particular circumstances which allowed them to flourish and the pace with which they had been grown. There is surprisingly little sign of much importance being attached to anything that could be learnt from the small existing membership organisation ARP 050 – the Association of Retired and Persons Over 50.

The second was a set of specific market research exercises conducted at different times. There were four of these:

1. Research by The Development Team Limited dated May 2004.
2. Branding research conducted internally and dated October 2005.
3. Membership research by Age Concern Research Services in November 2005.
4. Qualitative research by The Development Team Limited in April 2006, just before launch.

I was told that the marketing agency retained by ACE (CHI) was also thought to be testing ideas and proposals through its own processes. If so, I have seen no evidence of any concrete outcomes being reported to the ACE Trustees.

The May 2004 research appears to have been conducted in response to the request at the November 2003 ACE Trustees meeting that there should be further evidence that core messages about membership would be attractive to the potential target groups – the first of the show stoppers referred to in Section 2.2. If so, it was based on a curiously small sample size (112). The research concluded that there was potential for a membership scheme. But it also said that it would be “an extremely challenging, potentially rewarding tightrope to master”. That can have come as no surprise to anyone. It also showed that two thirds of respondents perceived that an association with Age Concern would be an active deterrent to membership, which reinforced perceptions about the need to develop a separate brand.

The first piece of 2005 research was intended to explore the brand issue further. It showed a clear preference for Heyday as a name out of those tested. It also suggested that there was little interest in the membership offer of itself, that the ability to influence policy formulation was recognised to be something that was unique but which for most people was not particularly compelling as a reason to join, and that if people did join that would generally be because of the deals and discounts which might be offered. Respondents tended to feel that a subscription price would have to be justified on the basis of the savings that could be achieved through these means.

The second piece of 2005 research was set up mainly to test the attractiveness of the five pillars of the Heyday proposition described in Section 2.2. It was based on 1,000 interviews. It concluded that in principle there was an appetite for membership. But it confirmed the branding research’s view that it was the offers (and their marketing) which would be crucial. It also warned that the organisation should expect a slow build after an initial burst.

The final, qualitative research was conducted immediately prior to launch. I am unclear why it was commissioned at such a late stage. It consisted of an initial pilot (two groups of eight respondents) and a subsequent main stage (six groups each of nine respondents). In the pilot respondents were told from the outset of the involvement of Age Concern, which appears to have reduced the attractiveness of membership for most of them. In the main groups, ACE’s involvement was only mentioned at the end of the process.

Alarming, the research concluded that:

“Heyday does not fly. It is not convincingly appealing, motivating with ready buy in and commitment.”

A few of the respondents were extremely positive. But the majority did not understand how it hung together or why it was necessary. It was thought that the scheme did have some potential. But it will “have to satisfy the competitive value proposition to be convincing and desirable”.

I have seen no evidence that the overall conclusion of this research was reported to the ACE Trustees or ACEnt Board, nor to the ACE Finance Committee. I find this difficult to understand. It may be that it was reported orally but not recorded. If so, that would be a strange thing to do with such an important piece of information. Or it may be that by then it was felt that the preparations for launch had gone too far to be stopped.

This final piece of research turned out to be remarkably accurate. It also confirmed the view of the Heyday Membership Director, who had resigned after only 7 months in post having “found it impossible to reconcile a commercial marketing approach with Age Concern’s charitable focus”.

There are a number of observations to be made about the market research:

- It is clear that in deciding to go for scale from the outset to achieve critical mass the charity was assuming a significant risk. In the circumstances they might have been expected to devise a risk mitigation strategy which particularly focussed on confirming the attractiveness of what was on offer. It is difficult to see that any of the market research exercises really provided that, partly because the precise nature of what was on offer in financial terms remained vague right until launch.
- The reality was that the research might have given some reasonable grounds for believing in the existence of a potential market. But there was very little assessment of the charity’s likely ability to turn potential into actual customers. That was only really tested after launch. The consequence was that the numbers in the business plan were driven more by an assessment of what was needed to make the scheme viable than by a bottom up view of what was likely.
- There were plenty of warnings, even before the last minute research, that the success of Heyday would depend on the value for money it offered in financial terms and that the other, less concrete benefits were much less valued by the majority. Yet by the end it was ACE, not ACEnt which was in the lead on the scheme; and it was the charity and not the company which was in charge of its marketing.

There was undoubtedly a strong element of wishful thinking in the charity's approach. I note without comment a remark recorded in an ACE Trustees minute of 29 January 2007:

“The original market research undertaken had been sound but it was possible that the interpretation of the research had been driven by the desired outcome.”

3.3 The Heyday business plans

The lead in developing the pre-launch business plan “Heyday V1” was taken by staff within ACEnt.

The first draft of the business plan seen by the ACE Trustees was dated May 2004. It was considered by them at their meeting on 9 June 2004.

This version of the plan anticipated that Heyday:

- Would be launched in April 2005.
- Would grow within 5 years to 3 million members, of whom approximately a quarter would pay a subscription fee.
- Would recruit members through volunteer organisers.
- Would require start up funding of £22.5 million.
- Would generate £12.8 million for local Age Concerns over a 5 year period.

The other main papers before the meeting were the Heyday Manifesto (see Section 2.2) and a paper from the Director General. The Director General's paper looked among other things at each of the show stopper conditions identified at the November 2003 Trustees meeting and considered all four to be satisfied.

In retrospect it is clear that mistaken judgements had already been made. After a lot of effort there was substantial (though by no means overwhelming) support from the federation. But the business plan turned out to be much less robust than it appeared. The assurances given about financial support from commercial partners were misleading; and the only market research available at this point was that conducted by The Development Team Limited on the basis of a very limited sample size – as Trustees pointed out. In reality it should not have given a great deal of assurance about the attractiveness of the core propositions.

The next version of the plan considered by the Trustees was dated October 2004. It differed from the previous version in a number of ways:

- The launch was postponed until September 2005.

- The proportion of paying members was increased to 61 per cent (though only 41 per cent were expected actually to pay because of the availability of joint membership for spouses).
- The way in which organisers would relate to local Age Concerns, and the extent of the commission to be paid to local Age Concerns, were both varied.

This version of the plan was considered by the ACE Trustees at an away day on 3 November 2004. It had first been scrutinised by the Finance Committee a few days earlier. The minutes record a full discussion, including expressions of concern about scale and about the need to be ready to take immediate remedial action if it became apparent that the scheme was failing.

A third version of the plan was presented to the ACE Trustees in March 2005. It came with endorsements from the ACE Finance Committee and from the ACEnt Board. There appears to have been a substantial discussion with some challenge to the assumptions about take-up and a further request for reassurance that an exit strategy was in place.

Nevertheless the Trustees agreed unanimously to the launch of the scheme. The plan envisaged that launch would be deferred by a further month, to October 2005, and there appears to have been some concern that delays would allow competitors to get in first. The Trustees were told that £14.25 million of external funding had been agreed, subject to contract. In practice, as far as anyone has been able to establish the only subject to contract agreement at this point was in respect of the money from Fortis.

Following further work, a revised summary version of the business plan was presented to the ACE Trustees in December 2005. This version contained substantial changes to the previous version, the reasons for which were not fully explained. There were still no signed contracts with any of the promised partners. The Trustees agreed that work should continue to be progressed towards launch, which by then had been delayed further.

The last meeting of the ACE Trustees before launch was in March 2006. The Finance Committee continued to meet monthly. Their last pre-launch meeting on 3 May 2006 considered an update of the business plan which had been recommended by the ACHL Board at its own meeting a few days earlier. This plan was based on significant changes to the financial basis of the scheme. The Fortis contract had finally been signed a few weeks earlier.

3.4 The extent to which the business plan was challenged

A significant issue for this review in the light of the comment in the Charity Commission's Regulatory Case Report is whether the Trustees of ACE were sufficiently robust in their challenging of the successive business plans and the assumptions underlying them.

Even after the failure of the launch there appears to have been some lack of realism in the later versions of the business plans on which the lead was taken by ACE. One interviewee described "Heyday V3" as the most unrealistic of the lot.

Prima facie, the fact that the business plans turned out to be so flawed does suggest that they could not have been subjected to adequate challenge. If they had, those flaws might have been identified and potentially addressed.

In retrospect it is clear that the ACE Trustees and its Finance Committee, and the ACEnt and ACHL Boards, did make a number of mistakes. In particular it appears now that they could not have examined some of the underlying strategic assumptions with sufficient rigour and that they failed either to notice or sufficiently to follow up a number of warning signals. Nor do they seem to have insisted on appropriate stocktaking at regular intervals to ensure that the way the scheme was evolving remained in the interests of the charity. Such stock takes are particularly essential when projects build up as much momentum as this one did. As far as I can tell, at no point did the ACE Trustees or the ACEnt Board get independent advice on the robustness of the plans, which might have been appropriate given the scale and importance of the project.

The ACE Trustees did, however, face a number of handicaps:

- The Trustee board only met four times a year and had 39 members. In these circumstances it was almost inevitable that the task of detailed scrutiny had to be delegated to another, smaller group – the Finance Committee.
- The Trustee board's membership changed substantially part way through the process.
- The minutes make clear that a number of Trustees and Finance Committee members did challenge and raise important points. But the issues raised were not then always hammered out or, if they were, necessarily followed up. The exit strategy, for example, appears not to have been considered seriously until after the failure of the launch, even though the desirability of having one had been raised at successive meetings.
- The Trustees were faced with a Director General who was very closely identified with the scheme and a Managing Director of the trading company

with a successful track record of innovation. Both were strong advocates of the scheme, at least until near the end.

- Any board of trustees is critically dependent on the quality of the information given to them by their executive. In this case they were presented with a substantial volume of information through the business plans and the accompanying documents. But it was not always in a form which was very accessible. The key assumptions underlying the plans, for example, were not always spelt out in any detail. Nor, as I have indicated, have I found it easy to follow the way in which the successive pieces of market research, flawed as they may have been, were reflected in the construction of the business plan.
- Papers were often presented late or incomplete.
- On two very important points, the amount of investment to be secured from external partners and the extent to which that reflected external scrutiny of the plan, they were clearly operating under significant misapprehensions.
- Almost from the beginning, there was a strong sense of working under time pressure.
- Strained relationships between ACE and ACEnt hindered openness and the flow of information. The composition of the Trustee board, with large numbers of representatives from local Age Concerns, also seems to have created concern about leaks and some inhibitions about exposing all the issues.
- The prescribed governance arrangements, complicated as they were, were not always observed.

I do not dissent from the view reached by the Charity Commission about the adequacy of board governance of the Heyday project. But I do have some sympathy for the position in which ACE Trustees found themselves.

3.5 The charity and the trading company

ACE was not alone among charities in having a trading subsidiary or subsidiaries. It may, however, have been unusual in the scale of its trading activities. There is also a complication because ACEnt's activities in the financial services market are FSA regulated.

My understanding is that the legal framework for charities with trading subsidiaries is not particularly well established. But the basic principles are clear. For tax and other reasons the trading subsidiary tends to be set up as a company in its own right even if, as is usually the case, it is wholly owned by the charity. The charity can only spend money on charitable purposes, and then only on activities which fall within the

scope of its own charitable objects. The company is not bound by any such constraint.

The company has its own board of directors, responsible for its operations. But they have a duty to operate in the best interests of the shareholders, in this case the charity. Charities' trading subsidiaries are expected either to generate a return on their operations for their parent charity or to deliver services on its behalf, or both.

The charity for its part needs to find a way of making sure that what the company is doing is consistent with its overall strategy and values, and is not, for example, creating unacceptable reputational risk. It has the right to indicate to the company what it believes its interests to be. But it needs to find a way of doing so which keeps the trading company at arm's length, which does not involve unnecessary and unproductive interference in operational and commercial decisions, and which avoids creating a situation in which – because it is giving too many directions to the board - its officers could be regarded as shadow directors and therefore responsible for any liabilities the company may incur. This is particularly important when the business in question is in the area of financial services and is therefore FSA regulated.

ACE's approach was to set up a holding company (ACHL) to oversee the trading company, with its own board and an independent chairman. The ACHL Board was intended to be strategic, the ACEnt Board operational. Following the failure of Heyday and a governance review in 2006-07, ACE changed to what I understand to be a more conventional structure. The holding company became less active and an Enterprise Committee was set up as a committee of the ACE Trustee board to exercise strategic oversight. Other recommendations of the review relating to the number of Trustees were put on hold pending the merger with Help the Aged.

I was told that before Heyday there was generally perceived to be an unspoken understanding between the Director General of the charity and the Managing Director of ACEnt that the former would concentrate on the charity and let the other get on with running the business without a great deal of interference. If so, it is hardly surprising that their relationship deteriorated as the Director General asserted his authority in relation to Heyday, as he was virtually bound to do given its importance to the charity and the hybrid way in which it was set up (see Section 3.6).

3.6 The governance arrangements for Heyday

Heyday was a major project for ACE. It was also very complex and bound to put ACE's existing structures under strain. If it had been successful, it would have transformed both the charity and its trading arm.

In the circumstances it might have been expected that a lot of thought would be put into the appropriate mechanisms for taking Heyday forward, not excluding the possibility of establishing it as a separate legal entity, and that appropriate advice would be taken.

I am told that considerable discussion did take place among ACE senior staff. If so, at no point did it produce a clear statement of the legal, operational and governance issues and the reasons for the choices that were made. Advice was taken from the charity's external legal advisers in June 2004, but the brief concentrated on a limited number of specific points. The advisers do not appear to have been consulted about some of the basic issues until after Heyday had failed and the charity was preparing its response to one of the Charity Commission's letters.

In any event, the choices were never formally exposed to the ACE Trustees. Nor from the minutes I have seen did the Trustees ever ask to have sight of the relevant legal advice, external or internal. If there had been more discussion at the beginning, some of the later difficulties with the Charity Commission might not have arisen.

There is a potentially revealing passage in a letter sent by ACE to the Charity Commission on 7 December 2007:

“Heyday was a major new project for the charity and its trading company; the overall mix of elements was fluid, developing and in some cases near the boundary of traditionally-recognised charitable activity. Legal advice was taken seriously but sometimes challenged and debated and different views (not just from the Legal Unit) were put forward. **The detail of these discussions would not usually have been appropriate to report to trustees*.**”

(* My emphasis)

In the event the project was progressed within existing structures, with a surprising lack of formality about some of the arrangements. In particular, there was no written agreement between ACE and ACEnt setting out their respective responsibilities in relation to Heyday or the way in which income and expenditure relating to Heyday was apportioned between them.

Not putting in place a written agreement of this kind seems to me to be a fairly fundamental failing. Its absence must have contributed to the breakdown of relationships between the Director General and the Managing Director of the trading company as the Director General sought to assert his authority.

There is a clear distinction between the governance arrangements pre and post launch. Those before launch were fairly complex:

- The ACE Trustees were the owners of the project.

- ACEnt, and the ACEnt Board, was tasked with delivering the operational non-charitable aspects of the project, including the preparation of the business plan.
- The ACEnt Managing Director was regarded as project sponsor.
- Scrutiny of the resource aspects of the plan was delegated by the ACE Trustees to its Finance Committee, working with the ACEnt Board.
- A Heyday Policy Board was set up, with 17 of its 31 members drawn from local Age Concerns, to monitor and advise on the scheme and its impact.
- A Heyday Operational Board was given responsibility for the operation of the project as a whole. It was this group, which seems to have taken most of the decisions, though in principle these were subject to the agreement of the ACE Trustees. It was chaired by the Director General. The Managing Director of ACEnt was the only representative of ACEnt, who were doing the major part of the work. There was also one representative of the federation.

A number of significant changes were made to these arrangements from the autumn of 2006 as the failure of the launch became apparent and as attempts were made to get to grips with the consequences. In particular:

- Management reporting was tightened up, in terms of both content and timeliness.
- An external governance review was commissioned.
- The Heyday Policy Board and other overview structures were dismantled and an Enterprise Committee of the Trustee board established instead.
- Greater discipline appears to have been exerted in bringing important Heyday decisions to the Trustee board.

The continued impact of these changes on the operations of Heyday was interrupted by the decision to merge with Help the Aged. Had that not happened, some of those concerned still believe that it would have been possible to reduce costs to a level where Heyday would have become viable.

3.7 Project and programme management

The first formal programme management structure to deliver the membership scheme was set up in June 2004. It comprised two parallel programmes:

- The Charity Individual Membership Programme – to ensure all aspects of membership were considered, that the scheme was consistent with the values of the charity and that ACE would be prepared for the impacts and opportunities.

- The Panama Programme – to put in place the “physical membership machine”.

The structure was complex. Communications between the two programmes were never sufficiently effective to enable the overall programme to be delivered in a coherent manner.

The Charity Individual Membership Programme initially comprised 17 work streams. 13 of these were enabler projects which needed to be complete or substantially complete before launch. The 7 work streams in the Panama Programme underlay the development of the first business plan.

Acknowledgement that the twin programme approach was not working led to the creation of a single coordinated programme in February 2005. The new structure was significantly simpler. Key elements of the enabler projects in the earlier Charity Individual Membership Programme were included as work streams in the new programme led by ACE directors. An experienced Programme Director was appointed who had previously been the ACEnt Operations Director.

The Programme Director introduced established methodology:

- MSP (Managing Successful Projects) – adopted as the programme management methodology.
- PRINCE2 - adopted as the methodology to manage the projects needed to deliver the programme.
- Microsoft Project 2003 – the software package used to track information.

These are conventional tools which have been used to deliver a wide variety of programmes in many different settings. They became the means through which successive business plans were developed and presented.

As time went on, the structure had to adapt to integrate a number of new features including:

- The appointment of a Membership Director in February 2005 and her subsequent replacement by a Heyday Launch Director in November 2005.
- The creation of the Heyday Management Team in November 2005.
- The creation also in November 2005 of a Heyday Control Centre which brought together key managers and staff.

The appointment shortly after launch of the Heyday Launch Director as Heyday Director, a post that combined the Launch Director role with that of Programme

Director, effectively brought the programme management structure adopted in February 2005 to an end. The Programme Director then left the organisation.

In an internal review of the project produced in May 2007 (the “Wash Up”), the Director General attributed a part of the blame for the failure of Heyday to the project management tools used. I have seen no evidence to support this view.

I would in any case find it prima facie surprising. The methodology has been used in a wide range of other circumstances and the Heyday project in my view was not nearly as unique in its key characteristics as some appear to believe.

What the methodology does is to systematise the process of taking decisions. It cannot substitute for clarity of thinking about objectives or for appropriate leadership. The only way I can understand this conclusion is if inexperience in using the methodology encouraged people to think that the project was on track because they were putting ticks in the appropriate boxes rather than standing back and taking an objective view. If so, I regard that as a fault of the way the methodology was applied, not of the methodology itself.

It is almost certainly true that overall project management was not strong enough. This is not necessarily so much a criticism of the Programme Director as of the resources and authority he was given and the ownership of the process within the organisation. I was told by some interviewees that project discipline was often fairly lax, with key dates being missed or promised actions not being taken without adequate explanation or holding to account.

3.8 The costs of Heyday and its treatment in the accounts

One of the consequences of Heyday not being set up as a separate legal entity is that there was no single set of accounts relating to it. In accounting terms Heyday consisted of a cost centre or cost centres in each of ACE and ACEnt. There was no Heyday balance sheet, and Heyday has never been subject to a separate external audit.

In the absence of a clear advance delineation of what could legitimately be treated as charitable expenditure, costs broadly speaking were initially allowed to lie where they fell. There were no formal recharge arrangements between the two organisations.

Greater emphasis was placed on allocating Heyday costs between those that were charitable and those that were non-charitable after ACE took external legal advice during its exchanges with the Charity Commission. Management undertook an exercise at the end of each financial year to reallocate costs between the two entities

to ensure that retrospectively ACE incurred only these costs which were charitable in nature, with the remainder falling to ACEnt.

Retrospective reallocations of this nature are not unknown elsewhere. What is perhaps more unusual is the degree to which the limited formalisation in this case meant that a significant amount of cost allocation had to be done post hoc rather than ex ante according to a pre determined rationale.

One consequence is that until now there has not existed a straightforward statement setting out all the expenditure on Heyday, whether charitable or non charitable, how it was funded and what the total costs of the episode were to the charity. There was a partial account in Note 32 to the 2006-07 accounts. But it was not easy to follow. It was not repeated in the 2007-08 accounts. Nor, at the time of writing, was it intended to include any such an analysis in the 2008-09 accounts, the last before the merger.

The Charity Commission criticised this omission in their Regulatory Case Report.

ACE have defended themselves against the criticism on the grounds that they were following the advice of their experienced auditors, that it would have been wrong not to have followed that advice and that they do not believe such an analysis to be required by the Statement of Recommended Practice (SORP) with which charity accounts are supposed to comply.

I find ACE's position on this difficult to understand. The fact is that Heyday was a high profile programme by a major charity which went disastrously wrong and which ended up costing the charity significant amounts of money. Not to account for that in an intelligible way to their own members and supporters, still less the wider public, seems to me to be untenable - whether the SORP required it or not.

The Charity has now supplied me with the figures shown in the following table. I am not in a position to vouch for their accuracy. But I have no reason to doubt them. The table shows that the total losses from Heyday were £22 million, including an estimated closure cost of £497,000. The figure assumes that Heyday should not take credit for any of the upfront money received from Fortis or Dignity. It does not include any losses incurred by other members of the federation as the result of taking on paid organisers.

Heyday Detailed Financials

	2004/05 £'000	2005/06 £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000	Total £'000
Subscriptions	0	0	337	414	121	871
Product revenue	0	0	140	20	15	175
Total Income	0	0	476	433	136	1,046
Staff Costs	97	371	1113	509	441	2,531
Office costs	91	-3	726	188	16	1,017
PR and Marketing	1	215	398	206	68	889
Information	0	26	319	170	6	522
Member support and contact	0	18	295	9	113	436
Consultancy and Professional fees	40	3	118	80	0	241
Other costs	24	0	17	0	8	49
Heyday Charitable Costs	253	630	2,986	1,163	653	5,685
Staff Costs	219	1,055	2,911	245	339	4,769
Office costs	59	94	2,095	322	21	2,591
Consultancy and Professional fees	0	64	188	0	21	273
IT costs	0	33	1,479	753	0	2,265
Travel and subsistence	10	81	115	38	18	262
Depreciation	0	5	954	652	118	1,728
Irrecoverable VAT	52	109	653	175	(1,852)	(863)
Marketing costs	106	138	1,436	2	169	1,851
Direct costs of sale	0	589	116	1	574	1,281
Total Non Charitable Costs	445	2,167	9,947	2,189	(592)	14,156
Net Profit/(Loss) before write off	(698)	(2,798)	(12,457)	(2,919)	75	(18,795)
Write off of IT costs				3,224		3,224
Net Profit/(Loss) after write off	(698)	(2,798)	(12,457)	(6,143)	75	(22,020)

* Expenditure for 2008/09 is estimated and includes projected closure costs of £497,000

3.9 The dialogue with the Charity Commission

ACE's in-house legal team gave advice in 2004 that the Charity Commission should be approached about Heyday at an early stage. This advice was not followed, apparently on the grounds that it was not then possible to give a detailed description of the scheme.

The first time ACE did contact the Commission was in an email on 26 May 2006, four days before launch. The membership scheme had apparently been mentioned some time earlier in March 2005 during a routine large charity visit. The Director General had promised then to provide further details. But that does not appear to have happened.

During 2007, the Commission received several press enquiries and letters from the public about Heyday, and sought further information from ACE. There then followed a lengthy period of meetings and exchanges of letters and other material which lasted two and a half years and involved four separate meetings with either ACE staff or ACE staff and trustees together.

In the initial stages the Commission's enquiries centred on the extent to which the expenditure incurred on Heyday fell within ACE's charitable objects. As time went on, and as they discovered more from the papers supplied to them, the Commission's focus shifted to the robustness of the Trustees' oversight of the programme and the degree to which ACE had been transparent in its accounts about what was going on.

The key points at issue in the discussion of charitable objects were:

- Whether prevention of the problems of old age was a suitable charitable objective. ACE argued strongly that it was, and that early intervention could help ameliorate such things as poverty, ill health and isolation.
- Whether, if prevention was accepted as a suitable purpose for the use of charitable funds, ACE's objects were drawn widely enough to encompass it.
- Whether the Heyday literature and website inappropriately over-emphasised personal benefit (which is what the market research suggested members would be most interested in) at the expense of charitable purpose.

The exchanges appear to have caused some irritation on both sides:

- ACE was frustrated because they did not think the Commission properly understood the difficulties faced by an organisation trying to innovate in the area of social enterprise. They also felt that the Commission were taking too

narrow a view of charitable objects in general and theirs in particular, and that they were changing the goalposts as the discussions proceeded.

- The Commission were visibly frustrated by how long it took to get answers out of ACE, by how incomplete some of those answers initially were and by how unwilling ACE appeared to be to accept the need to evidence the charitable purpose for which their funds were being used.

The regulatory case report was published on 9 February 2009. It reached four main conclusions:

1. The decision-making process ACE followed in relation to Heyday “lacked the rigour that we would expect from a charity embarking on a high profile new project”. It was not demonstrated “that the Trustees exercised sufficient oversight and critical challenge, against a clear and robust risk management framework”.
(Paragraph 20)
2. The Trustees were not able to demonstrate clearly “how the Charity had reached its decisions about which of Heyday’s activities furthered the Charity’s charitable purposes, or whether they were income-generating activities to be undertaken by the trading subsidiary. The Trustees were also not able to demonstrate that there was a clear link between some of the non-income generating activities and the Charity’s charitable purposes”.
(Paragraph 31)
3. The constitutional issue of how Heyday members participated in ACE more generally “was not dealt with in a timely way and lacked transparency”.
(Paragraph 37)
4. The presentation of Heyday within ACE’s annual accounts did not “assist a reader fully to understand the full costs or nature of the activities conducted”. In consequence “the presentation lacked the transparency expected of a large national charity”.
(Paragraph 57)

The ACE Trustees accepted the third conclusion. They did not agree with the others. They did, however, accept all but one of the main consequent recommendations – the exception being the recommendation to publish a full financial analysis on which at the time they gave a temporising response. That recommendation has also now been accepted in the form of the table in this report.

It is not for me to second guess the Commission's judgements. But it will be apparent from what I have said that I take much the same view as them on the first, second and fourth issues. I have not spent any time considering the third.

I have three observations about the exchanges with the Charity Commission:

First, it is possible that the Commission made more of a meal of the issue about charitable objects than was necessary. They have effectively now accepted the thrust of ACE's argument. That is a good outcome, both for the new charity and potentially to the wider voluntary sector. It would not have happened had ACE not engaged with them.

Second, many of the difficulties ACE experienced with the Commission on the issue seem to me to be largely of ACE's own making:

- They, or at least the staff, recognised from the beginning of the planning for Heyday that they were operating in a complex area about which there were different views. They received advice from their internal lawyers that it would be sensible to talk to the Charity Commission before beginning to implement the plan. For whatever reason, they chose not to accept the advice. There appears to have been no discussion of this issue with the Trustees.
- If there had been early discussion with the Commission, an entirely legitimate debate about the extent to which action in the form of early intervention aimed to prevent some of the difficulties of old age fell within charitable objects in general, and theirs in particular, could have been conducted without the edge to which later events gave rise. Advice could have been given about the way Heyday should be implemented which would have made the Trustees' position much more secure against subsequent criticism.
- The error was then compounded by the largely post hoc approach which was taken to the attribution of Heyday costs between charitable and non-charitable expenditure. The result was that the issue of principle (what kind of spending can be treated as charitable) became mixed up with issues about the way in which it had been applied (was this item of expenditure correctly attributed according to the principle). It was entirely reasonable for the Charity Commission to want to be satisfied that ACE knew where activities which were charitable and where activities which were non-charitable were carried out and that they had appropriate financial systems to track and account for each.

Third, I recognise the sensitivity which individuals display when subjected to criticisms of their actions, especially if they regard those criticisms as being unfounded – as the ACE Trustees clearly did in this case. It is also true that their responses were prepared in the light of advice from their external legal advisers

and from another firm of solicitors whom they were obliged to consult under the terms of their trustee liability insurance.

Even allowing for this I have been struck by an element of defensiveness in the ACE culture and by what I see as an unwillingness on the part of some until very recently to face up to the reality of what happened with Heyday.

The partial view of reality was illustrated in the issues and lessons “Wash Up” paper prepared for the Trustees by the Director General in May 2007. In my view that failed to address most of the main issues which arose. The existence of the internal review was nevertheless initially used by the Trustees to defend their unwillingness to commission the independent external review suggested by the Charity Commission. I am not surprised that the Commission were not persuaded that a review of the lessons conducted by one of the principal players was an adequate response to a significant failure.

I strongly suspect that if ACE had not felt it necessary to justify everything they did to the Charity Commission in such detail, and had adopted instead a more open, reflective approach to the mistakes that had been made, the process could have been truncated. It must also be possible that faced with a more obviously self-critical and self-evaluating ACE the Charity Commission would not have insisted on the independent review which I have conducted, or on its publication.

3.10 Local Age Concerns

ACE was one of a federation of 343 Age Concerns in different parts of the country, known as Age Concern, the federation, all of which are independent charities in their own right. Some are very small, others more substantial. ACE was by far the largest. But it was not the “headquarters”. The governing body of the federation is the Age Concern Assembly, which meets twice a year. Federation members were represented on the ACE Trustee board.

Relations between ACE and other federation members were not always easy. Some in ACE regarded that as inevitable. Others suggested to me that it may have reflected the fact that (in their view) ACE did not treat other federation members as genuine partners in a common endeavour.

146 of the larger Age Concerns are Trading Alliance Members (TAMs) and derive a significant part of their income from the sale of ACEnt products. Under the trading alliance agreement in force between 2002 and 2007 they were entitled to commission on sales of ACEnt (and Aid Call) products, distributed according to post codes, together with an element of profit sharing through a bonus pool.

The commission structure proposed for Heyday was based on whether members had been recruited and products sold through centrally or locally managed activity. This was quite deliberate. The business plan required local Age Concerns actively to recruit Heyday members.

Not all of the TAMs bought into the new arrangements. But concern about loss of commission income if they did not participate led a number to recruit their own paid membership organisers. When Heyday failed to take off as anticipated, a number of these organisers were made redundant. The costs of employing organisers, and then of making them redundant, were borne locally. There was no compensation from ACE or ACEnt, which caused a certain amount of resentment.

Support from within the federation had been one of the four show stoppers identified at the ACE Trustees meeting in November 2003 (see Section 2.2). In consequence a great deal of effort was put into securing their commitment and plans were shared with them through a number of different bodies. Not surprisingly, they demanded the answers to a large number of detailed questions which ACE and ACEnt were not necessarily able to provide. In retrospect, some senior ACE staff believe that the degree of participation by local Age Concerns made project planning and implementation far more complex and time consuming than was necessary and diverted time and resource which could better have been directed elsewhere. This was one of the points made by the Director General in his "Wash Up" document. Had the investment not been made, of course, the consequences for the project could also have been significant.

The proposal to establish Heyday came to the Age Concern Assembly in May 2004 on the basis of the Heyday Manifesto. Discussion there and at other meetings highlighted a range of views. Some of the larger Age Concerns with significant trading income saw opportunities to reach new markets. Others were fearful that a membership scheme would become a local competitor. Some doubted ACE's capacity to develop the programme. A number were suspicious of ACE's motives in proposing it in the first place. The proposal was, however, supported by a 60:40 majority.

An important element in securing support was the promise that the federation would have significant influence over the way Heyday developed. This was to be achieved by having a federation representative on the Heyday Operational Board and by the creation of the Heyday Policy Board with a significant number of federation representatives to act as a sounding board. The Policy Board never lived up to expectations and there was considerable dissatisfaction with the way it operated. It was described to me as more of a place where people came to tell you what was happening than as an opportunity for reasoned debate. Papers were presented and discussed. But it seemed to many to have little or no effect on the way Heyday

developed. With hindsight, it may be unlikely that it could ever have had a significant impact given the pace of development and the infrequency of meetings.

Those in the federation unhappy with what happened with Heyday appeared to fall into three main categories:

- Those who would have been unhappy anyway.
- Those who had wasted both money and time by employing organisers.
- Those who were concerned about the potential reputational damage.

It appears that there were problems with some relationships in the federation already. Heyday may have exacerbated the situation. It did not create it. Had Heyday been a resounding success, there would not have been many complaints about the way it was developed and managed, though those local Age Concerns who had seen it as a bid for a central takeover might have seen some of their fears realised.

I am told that there were some positive outcomes in terms of the stimulus provided by Heyday for the development of local relationships with business.

4. Conclusions

There is no doubt about the boldness and compelling nature of the vision underlying Heyday, or about the conscientious way many of those involved set about implementing it. Had the project succeeded, the impact on the charity would have been considerable. It would have made a reality of ACE's ambition to be a charity not just for older people, but also of older people. It would also have created a significantly larger and more sustainable funding stream.

A few of those interviewed still believe that in different circumstances it could have been successful. One interviewee told me that they thought the margin between success and failure was often – and had been in this case – fairly small.

I do not share this view. With the benefit of hindsight, my opinion is that Heyday was planned and implemented in a way that was almost bound to fail. In a number of respects it provides a classic case study of what not to do if you want a project to succeed.

In particular:

1. There was an assumption that the dual objectives of Heyday – building a membership base for the charity and a larger and more sustainable customer base for ACEnt - were mutually supportive. In practice there were two

competing visions for the project which came into conflict. This conflict does not appear to have been sufficiently recognised at an early enough stage, nor therefore resolved.

2. There was insufficient clarity about who was in charge of the project. This led to an understandable breakdown in the relationship between two of the principal players – the Director General of the charity and the Managing Director of ACEnt – and important changes in responsibilities at a late and critical stage.
3. There was an abundance of paper. But the key strategic choices and underlying assumptions were not always set out very clearly, which must have made it difficult for the Trustees to discharge their governance responsibilities adequately.
4. The way in which some of the key information was presented to the ACE Trustees and to its Finance Committee left a lot to be desired. Key aspects of this were the results of some of the market research and the extent to which money provided by commercial partners could be directly attributed to Heyday.
5. There was a surprising lack of formality about some of the arrangements. A number of the key things that might have been expected to have been written down, so that everyone was clear about them, were not. In particular, there appears to have been no written statement about the respective responsibilities of the charity and of ACEnt.
6. As part of this, until a late stage the question of what was within the objects of the charity and could therefore properly be treated as charitable expenditure was regarded within the finance division as something to be determined after the event for the purpose of drawing up the accounts, not as an issue about which it was important to be clear from the beginning.
7. The governance structure was very complicated. It was also, it appears, at times confusing to some of the participants.
8. There was little sign that risk assessment was used actively as a way not only of identifying but also of successfully mitigating the risks associated with the project.
9. Some of the key decisions were inadequately discussed, or documented. In particular, the fundamental decision to start immediately with a large-scale national launch, necessitating substantial infrastructure and abortive overhead, rather than a more gradual approach to building up the market seems to have

been taken with very little analysis of the alternatives or of their relative riskiness.

10. There were undoubtedly some challenges of aspects of the project at different stages. But these were not always followed up very obviously. The overall impression is that the project was less than adequately scrutinised either through the governance process or by senior staff. There seems to have been a culture in some parts of the organisation that challenge would somehow be disloyal to the charity or to the Director General, whose brainchild this was seen as being.
11. The project took a long time to come to fruition. But at a number of key stages there seems to have been a very real sense of working under time pressure, and unstoppable momentum. No time was allowed occasionally to stand back and take stock in a self critical way as key gateways were reached.
12. There were changes in key personnel as the project went on. One of those taken on found that they were not then tasked with the key role they thought they had been recruited to do, and departed. At times others were asked to assume responsibilities, particularly in relation to issues that were in essence commercial, for which they did not very obviously have the relevant experience.
13. A conventional programme and project management structure was put in place. But the disciplines it was supposed to exert were not always observed. Deadlines would be missed with little apparent explanation or come back.

It is difficult to avoid the conclusion that there was a significant failure of governance. In short, this was a project which had twin potentially conflicting objectives which were not resolved at an early enough stage, which had an inadequate delineation of responsibilities, which had an insufficiently robust approach to risk management, which had a complicated governance structure, which suffered from inadequate or over-complicated reporting, which was not subjected to sufficient, or sufficiently consistent challenge and which suffered towards the end from poor relationships and declining trust between some of the key players. With these handicaps, it is not surprising that it failed.

5. Lessons

I was asked to undertake this review to make sure that any lessons that needed to be drawn from Heyday are taken on board by Age UK, and possibly also by other charities contemplating major projects.

Most of the key learning points are about the principles of good project management. There is nothing very novel about them. In particular:

1. Careful planning is essential. If you have not done anything like this before, take appropriate advice and listen to it.
2. Do not let your heart rule your head. If you are going to risk large amounts of resource, and reputation, make sure that you first have a firm evidence base. Do not make the mistake of thinking that because you have identified a potential market you can turn that into actual customers unless you have successfully tested the proposition you are attempting to sell.
3. Identify the key risks and make sure you actively run the project in a way that does as much as possible to mitigate them. There is no substitute for a robust approach to risk management, and for real experience in implementing it.
4. Ensure that everyone has the same view about what you are trying to achieve, and how you are going to achieve it.
5. Create clear and unambiguous lines of authority.
6. Make sure that there are clearly defined roles, responsibilities and accountabilities. Insist that responsibility for key parts of the project is given to people with the skill set and experience to exercise it effectively.
7. Use project and programme management tools to ensure the appropriate discipline. In particular, follow up on slippage and tasks not performed and hold people to account for what they have or have not done. Do not allow box ticking to substitute for leadership and clarity of thought.
8. Beware the momentum that large important projects can build up. Do not allow yourself to be swept along uncritically by time and other pressures. Make sure you build in time to take stock and critically reappraise at key decision points.
9. Ensure that there is a robust culture of challenge and reward rather than sideline those who do challenge.

10. Have fewer levels of governance and make sure that they actually work. Governance structures do matter, and should be used as intended, not worked round. Make sure that papers prepared for governance meetings are clear and unambiguous, drawing out the key issues, and that decisions reached at meetings are followed up.

I have no doubt that the Heyday experience would have been very different if these basic principles had been more effectively observed.

There are also a number of more specific lessons which Age UK may want to ponder, to the extent that they have not done so already:

- The failure to develop Heyday in a coherent, effective way had much to do with the relationship between ACE and ACEnt, and between those occupying leadership roles in the two organisations. To some extent these issues had been addressed within ACE before the merger as a result of the governance review, the creation of an Enterprise Committee and the adoption of a more formalised group structure, as well as by changes in personalities. My understanding is that Age UK is building on this in its own arrangements. The new charity will have to pay continuing attention to the issue if they are to achieve the right balance between retaining strategic control of the trading subsidiary or subsidiaries while allowing them the degree of operational and commercial independence necessary for their effectiveness and profitability. It should not be something to be determined at one point of time and then left alone.
- The size and composition of the ACE Trustee board did have an important influence on what happened. Despite suggestions to the contrary from some of its members, I find it difficult to believe that the Trustee board's considerable size and the infrequency of their meetings did not seriously limit the extent to which individual trustees could discuss and challenge the Heyday business plans. In practice, that task had to be largely delegated to their Finance Committee. However well the Finance Committee performed its task, there must be limits to the extent to which trustees can reasonably delegate such an important part of their responsibilities.
- It seems from what has been said to me that the significantly representative nature of the Trustees also affected the willingness of the executive to expose to it issues which could be sensitive to the federation. I therefore welcome the fact that the Age UK board is considerably smaller and much less representative of the federation.
- The support of the federation was judged essential to the success of Heyday – perhaps not surprisingly given that so many of the Trustees came from there. Strenuous efforts were therefore made to carry the members along with the

plan and various structures set up to help do that. I do not believe that this was a major factor. But I do have some sympathy with the view that those efforts to some extent diverted the time and effort of key individuals away from the important strategic and operational issues on which they should have been focussing. The commitments made to the federation were also one (but by no means the only) factor behind the momentum which the project possessed from late 2004 onwards which made self-critical evaluation more difficult. It will be important for Age UK to build a sustainable relationship of its own with the federation which respects their independence and the contribution they can make to the welfare of older people in their locality without compromising the obligation of Age UK's trustees to act in the best interest of Age UK.

- If Age UK were ever to contemplate initiating an analogous project involving both charitable and commercial objectives they would do well to pause before doing so, and if they did decide to proceed make sure that they had much tighter and more formalised legal structure and governance arrangements than existed for Heyday.
- There is little doubt in my mind that the approach taken towards the Charity Commission was misguided on several counts, even though there might also have been faults on the Charity Commission's side. ACE Trustees would have been better served if before embarking on what by ACE's own admission was an innovative project that tested a number of boundaries they had taken the advice of their regulator, rather than think that they had little to learn from so doing. When the Commission did get involved they clearly felt that they had unnecessary difficulty in extracting all the information they needed. I suspect that if ACE had shown greater recognition of the legitimacy of the questions being asked of them, and had shown less defensiveness and greater willingness to accept that mistakes had been made, they would have found the experience much more positive. It would almost certainly also have taken rather less time. They would not now be reading this report and its criticism when they should have been celebrating the merger with Help the Aged.
- Finally, this review has made me even more aware than previously of the difficulties faced by the volunteer trustees of any large charity in exercising appropriate oversight over a complex business, and of the extent to which they have to rely on the information presented to them by the charity's executive. There were aspects of the ACE executive's custom and practice which made the Trustees' task more difficult – specifically the tendency to write complex detailed papers which did not always serve to clarify the key issues effectively, the extent to which some issues were determined as being inappropriate to share with Trustees at all and, the fact that when external advice was taken there was a tendency not to show it to Trustees in the form provided but to

translate it into a separate paper. Age UK would be wise not to import these aspects of ACE culture into the new organisation.

What the Heyday experience should not do is to cast doubt on the validity of the thinking behind the thrust of the charitable part of the Heyday objectives – the importance for a campaigning and service providing charity to continue to engage with their stakeholders, and the desirability of encouraging younger older people to address some of the issues relating to poverty, health and isolation in later life when they are still able to have some effect on them.

A last thought

This has been a critical report in many respects. But I have been left in no doubt about the commitment of those concerned even if they failed to deliver an effective project. I hope this report will make it possible to draw a line under the experience so that, having learnt the lessons, everyone can move on.

One of the sadnesses of this report is its timing, coming at the end of ACE's existence as a separate charity. Over the years ACE has achieved a lot of which it should be proud. Heyday should not be allowed to detract unduly from that achievement, nor from the far sighted decision by the ACE Chair and Trustees to bring about the merger with Help the Aged. In taking that decision they have acted with integrity and without regard to narrow self interest. They should be applauded for that.

Christopher Kelly
20 April 2009

Appendix

Terms of Reference

The review of the Heyday project is jointly commissioned by Dianne Jeffery on behalf of the new charity Age UK, and Catherine McLoughlin on behalf of Age Concern England (ACE). The purpose of the review is to identify the lessons to be learnt, in particular by the new charity, from the development and delivery of the Heyday project and to address the following questions:

1. The governance arrangements in place in ACE and Age Concern Enterprises (ACEnt), and the effectiveness of these in relation to the development and roll-out of Heyday - what does this mean for the new charity?
2. The management of the programme by ACE and ACEnt – to include consideration of risk management, the project management approach adopted, and the control of costs and purchasing - what can the new charity learn about its own future approach?
3. The Heyday business plan, how it was constructed and monitored, how Heyday was funded, and how income and expenditure related to Heyday was treated in the accounts of ACE and ACEnt. To include consideration of the points that the Charity Commission's Regulatory Case Report specifically recommended should be considered by the review - what lessons can the new charity learn for its business planning, decision-making and accounting?
4. The strategy behind Heyday, what the goals were that the charity and the trading company intended to achieve - what continuing relevance, if any, do these have for the new charity?
5. The level of control of the charity over the trading company - was it appropriate in the light of the legal position of the charity in relation to the trading company and was it effective? What issues does the new charity need to consider in order to achieve the appropriate level of oversight of its trading subsidiaries?
6. The research undertaken or reviewed to support the development of the programme, and the level of scrutiny of the research by governance and management – what can the new charity learn from the research and from the way it was used?
7. What was the role of local Age Concerns, why were some Age Concerns unhappy about the failure of the programme, and what, if any, were the consequences? What are the learning points for the new charity in establishing its relationships with Age Concerns?

8. The charitable objects of ACE - what were the points at issue between ACE and the Charity Commission - and what can the new charity learn from this dialogue?
9. The communications and relationship between ACE and the Charity Commission - what can the new charity learn for its future relationship with the Charity Commission?

Heyday Review commissioned by

Age Concern England

Registered charity number: 261794

Age UK*

Registered charity number: 1128267

* Age UK is the legal name for the new charitable organisation created by the merger of Age Concern England and Help the Aged on 1st April 2009