

Due Diligence

Lankelly Chase

What is due diligence?

“A review performed to confirm facts or details of a matter under consideration.”

So this means, after we decide to grant fund an entity, or to enter into a contract with them, we do due diligence to check this entity is what we think it is, legally and financially.

We have different checks that we need to carry out for grants and contracts. These will be explained below.

Why do we do due diligence?

- To inform ourselves
- To build relationships based on transparency and respect
- To safeguard our reputation
- To be good partners
- To mitigate financial risk
- To avoid surprises
- Because we have to! (Hello Charity Commission, HMRC and auditors!)

Due diligence is not a dirty word (more on this later)

The bottom line:

We have to do due diligence.

But how we do it is up to us.

The principles behind our approach to due diligence

These guidelines aim to embody the system behaviours, particularly thinking about how we create open, trusting relationships, how we view everyone as resourceful and how we promote equality of voice.

They also place us fully in the role of funder or commissioning partner, with a duty to carry out due diligence and to be clear about this so partners see our boundaries and know how to engage with us.

As such, we hope this approach is based on equity and clarity.

Remember...

- We are not trying to catch potential partners out
- We are not overstepping our position nor prying
- We are being open and transparent about Lankelly Chase
- We are standing confidently in our position as a funder, supporting our partners and ensuring the sector is safe, equal and well paid.
- We can only do this if we are informed.

We come from a place of support and openness, building equity and clarity. If concerns arise during due diligence, our first response is “How can we help?”

Due Diligence for grants

The process for due diligence

1. **We hope to fund them:** we've decided this is a great potential partner. We would like to fund their work.
2. **Invite to a mutual due diligence conversation:** before we can fund them, we need to know each other better. We explain this clearly to potential partner, [inviting them to a due diligence conversation](#) and outlining what we are looking to find out (no surprises). We would love to answer their questions too.
3. **Have the conversation:** at a time that works for you both, in a setting that works for you both.
4. **Record that you've done DD:** fill in [our short form](#), either whilst having the conversation or immediately afterwards. Save it in your partner's [grant folder on the T drive](#) with their Ts&Cs (when these are done). Log in the appropriate resourcing log.

If any concern comes up during due diligence, talk it through with your line manager to decide how to proceed together.

Due Diligence Process



What do we check during due diligence?

- **Legal position:** what is the legal name and form of the entity we are grant funding? Eg is it a charity, a CIC, a limited company, a self-employed person? What name is it registered under?
- **Financial position:** is the entity in a stable financial position now? Will it be in the future?
- **Safeguarding:** how are people kept safe? If they work with children or vulnerable adults they must have a safeguarding policy.
- **Equality:** [How do they ensure equal opportunities?](#)
- **Living Wage:** are people paid in line with our commitment as a Living Wage Funder?
- **Political and reputational risk:** this is unusual but we should be aware – do our trustees need this grant flagged?

We come from a place of support and openness on all of these matters. If any of the above are missing, or present problems, our first response must be “How can we help?”

An example email invitation:

Thank you again for submitting your application to xxx. We are delighted to confirm that you were successful in the application and we would like to fund you £xxx to do xxx. We are really looking forward to working with you.

Before we start working together, we would like to invite you to a conversation with xx (and xx) in our team as part of our mutual due diligence process.

The purpose of this is for us to understand more about each other so we can work better together and manage any risks that come up in our partnership. It is also part of our commitment at Lankelly Chase to promoting equality and fairness in the sector, and to keeping everyone safe.

During this conversation we will be asking for some detail about your organisation, and we invite you to ask anything you would like to know about us.

Specifically, we'd like to know about your organisation's legal status (is it a charity, or a CIC or a company)? If you don't have an organisation we'll talk about options for funding.

We will also ask about your finances, your equal opportunities policy and how you keep people safe in your work.

We hope this will be an open conversation so that we can support you well in our partnership. If there is anything you need to be able to participate or feel comfortable in this conversation, please do tell us.

We'd love to answer your questions as well. We are happy to share any information that you would like to see to know more about us and how we work. To start, you can see more about our finances and who we fund here [\[LINK\]](#) and our investments here [\[LINK\]](#).

Some potential dates for this are xxxx

With all best wishes,

The conversation

The purpose of the due diligence conversation is to confirm the details we need to confirm. As such, we suggest having the form to hand to make sure you cover the key points.

Partners can be nervous in these conversations so settle in, be friendly, be yourself. Lead the conversation confidently, listen, be open.

A helpful structure we have used for these conversations is:

1. Settling in with chit chat
2. Clarify / remind of purpose of conversation
3. Invite questions about conversation
4. Invite questions about LC
5. Ask our questions
6. Invite questions again
7. You're done!

A note on questions

If it's helpful, always explain the rationale for why we ask things (eg we're keeping the sector safe. We want a partnership built on transparency). Remind that we aren't in the business of catching anyone out or finding reasons not to fund.

Be direct but also seek to inform yourself rather than just fill in a form. So rather than just asking if they have safeguarding and equal opps policies, ask how they keep people safe or treat them equally. You should find out about the policy this way.

If you feel a question sounds judgemental (“do you have a stable financial position?”) ask it in a different way (“how are your financial projections looking over the coming years?”).

You can always follow up by email afterwards if you realise you've forgotten something.

And you should check the financial and legal picture on Companies House / the Charity Commission website as well when you complete the form.

Political and reputational risk

We seek to assess whether partners or their work pose an unusual level of risk and so should be flagged to trustees.

We do not have an organisational definition of what political and reputation risk is.

Over autumn 2021 the Lankelly Chase staff team and Board will be working with our new lawyer Andrew Studd to create this definition.

Until then, follow your gut. AND check this gut reaction with a colleague to manage your own inevitable biases. A Google news check to see if the partner has hit any headlines is useful, as is asking if they intend to do any Political campaigning (we can't fund this).

The Due Diligence Form:

This is saved here:

[Due diligence - template.docx](#)

Legal name of organisation:			
Charity and/or Company and/or CIC No:			
Location and location(s) of work:			
Main contact:			
Amount requested:			
Type of funding (grant/contract):			
Duration of funding:			
LCF budget line:			
LCF lead & support:			
	Yes	No	Comments / next steps
Living wage employer?			
Safeguarding Policy?			
Equal Opportunities Policy?			
Stable financial position?			
Political or reputational risk?			
Anything else to note?			
Scrutiny of LCF	Comments and any next steps		

Due Diligence for contracts

Legally:

We don't have to perform the same level of due diligence for a contract as for a grant.

For a contract, the minimum we need to check is the contractor's employment status using HMRC's employment status indicator:

[Check employment status for tax - GOV.UK \(www.gov.uk\)](https://www.gov.uk/check-employment-status-for-tax)

We then work through the contract template to be clear on project deliverables, contracted hours, VAT payments etc.

This is sufficient for simple, transactional contracts.

However.

We are increasingly using contracts in our inquiry work where appropriate.

For example in the 2021 Knowledge inquiry partnership round, 4 partners use contracts and 4 receive grants.

In these cases, we advise following the exact same process as with grants. It would have been unfair if 4 knowledge partners had gone through a due diligence process but 4 hadn't.

Which due diligence process to follow:

- Simple transactional contract** → **HMRC ESI indicator + contract template**
- Contract for strategic partnership in an inquiry** → **Grant due diligence**
- Long term, programmatic contract (eg commissioning a major learning partner)** → **Grant due diligence**

A Final Note

Most of us have seen due diligence being done clumsily by funding bodies. Power gets wielded badly and unfair judgements are made.

Some of us have had this done to us or have been part of doing it.

As such, we acknowledge that due diligence can feel an uncomfortable topic and process for some colleagues because it reminds us of this.

We are part of modelling a better approach to due diligence.

Coaching and support is available to colleagues. Talk in your portfolio team about it. Bring issues to reflective practice. Let's work through this together.