



Trustees' Annual Report for the period

From 15 October 2018 Period start date
To 14 October 2019 Period end date

(the "Period")

Charity name: Leather Inside Out

Charity registration number: 1177993

Objectives and Activities

Summary of the purposes of the charity as set out in its governing document

The objectives of Leather Inside Out are:

- For the public benefit, to advance the education of those committed to the custody of HMP and YOI by the courts of England and Wales and, in partnership with the National Probation Service, on their release from custody
- The prevention or relief of poverty for the public benefit by providing ex-offenders with skills, resources and employment

- For the public benefit, the promotion of equality and diversity by the elimination of discrimination for those convicted or remanded by a court in England or Wales,
- For the public benefit, the relief of those in need by reason or consequence of conviction, sentence or remand by a court in England and Wales by delivering education, training and employment opportunities.

Summary of the main activities in relation to those purposes for the public benefit, in particular, the activities, projects or services identified in the accounts.

- Ongoing development of commercial real estate (“CRE”) at 6 Pratt Street London NW1 0AB (the “Pratt Street Property”) and 10 Pratt Mews, London NW1 0AB in order to facilitate delivery and implementation of the projects, services and activities contemplated in the governing document of the charity (the “Charity”).
- Development, application and management of financing and income sources in order to support the CRE supported by the Charity.
- Supporting, developing an expanding two non-charitable Charity controlled affiliates, SKC (Camden) Ltd, (“SKC”) and Leather Works London Ltd. (“LWL”) (each an “affiliate”, together the “affiliates”) to expand the purposes for the public benefit of the Charity with particular regard to the delivery of training and employment opportunities, the promotion and the delivery of education programmes.
- Development of skills in training and retail label through the development of Charity’s the Design for Life programme.
- Developing and implementing a School Programme (target group 16-19 years) with local education providers in North London to support the integration of SKC (Camden) Ltd.(“SKC”) into the Charity.
- Developing and piloting a trial beneficiary programme with open and closed prisons in England and Wales and with probation services.
- Establishing and developing relationships with other charities in the sector.
- Instigating preliminary launch of the Charity via social and reporting media.

Statement confirming whether the trustees have had regard to the guidance issued by the Charity Commission on public benefit

I hereby confirm that the trustees have had regard and reference to the guidance issued by the Charity Commission on public benefit.

Achievements and Performance

By 14 October 2019 and to facilitate the provision of its activities and services for public benefit, the Charity has established and / or states as follows-

Employment

- The Charity oversaw the recruitment of three employees. These employees were intended to provide support to the Charity Launch, its PR Initiative and its feasibility studies into the structures and expansion of LWL and SKC to support the Charity and for public benefit. During the period and while the viability of the Charity's model under its 2018 business plan was being contemplated, it maintained a policy of retaining its senior managerial staff under consultancy arrangements, including one beneficiary worker with specialist multi-media skills. Its Founder was also retained to provide flexible advisory assistance to the Charity and administrative support to the trustees. Its recruitment policy over the Period was skills based which to an extent highlighted the importance of permanent staff having strong background in specific administrative and technological areas as well as a solid understanding of and commitment to the Charity's ethos, objectives and mission.

In order to support and develop SKC, the Charity funded regular flexible contract arrangements with five workers who had been introduced to the Charity via its Schools Programme who were retained for varying period of 8 - 40 hours per week on an hourly rate basis and in excess of the National Minimum Wage. This strategy enabled flexibility during the assessment phase.

In order to enable LWL to support the Charity, the Charity authorised the recruitment of one staff member on a part time employment contract, together with three workers with varying degrees of skills and experience on a contract basis. These workers supplemented the existing permanent employment contact of LWL's manager (also a trustee of the Charity) (variously the "Manager" and the "Trustee"), also a consultancy arrangement with an experienced leather craft designer (the "Consultant"). During the period and until his resignation from LWL and the Charity on 24 September 2020, the Manager was the line manager and reporting line for LWL staff, although during his leaves of absence in November 2018 and April - August 2019, this responsibility was assumed by the Consultant, on an acting basis.

Note throughout the period and on the basis that the Consultant's North London based premises were severely restricted due to an arrangement with the Health and Safety Executive, the Consultant was permitted to Charity premises for weekly Saturday teaching sessions, noting for the avoidance of doubt that any income derived from this teaching was for benefit of the Consultant only.

Trial Beneficiary Programme

The phased, controlled staffing strategy enabled the Charity to test a pilot beneficiary programme which was trialled with five beneficiaries, two serving custodial sentences in the female prison estate, two males on supervised licence with the National Probation Service and the Community Rehabilitation Company respectively,

one male remanded in custody, subsequently bailed under home detention curfew. Such staff remained under the supervision of the Charity management who maintained liaison and support with HMPPS, including with regard to compliance with licence conditions.

Property Refurbishment

- Refurbishment of the Pratt St Property was conceived in phases with priority being provided to the main warehouse facility on the basis that this would accommodate income generating activity for the Charity, via LWL's Charity subsidised manufacturing work, and as an operational base for the DFL programme under direct Charity supervision.

- Building works included installation of new bathroom and sanitation facilities, kitchen and eating facilities, electrical and lighting improvements to appropriate HSE and HMPPS standards.

- During the course of building works, the Charity identified that there were significant defects within the Pratt Street Property, specifically regarding its common area (entrance) and with regard to ancillary warehouse space, both areas demonstrating significant damp egress as consequence of leaking roof. Pending completion of structural survey of the Pratt St Property, the Charity resolved to avoid additional expenditure on the building until early 2020, at this point it had proposed to have formalised a grant and funding strategy which would potentially justify expansion of existing space for education facilities and teaching.

- throughout the development phase of the Property substantial stock overspill from the SKC business was stored and catalogued in one of the rear warehouses of the Pratt Street Property.

During this refurbishment period and as part of its contractual agreement with the Consultant, the Charity continued to fully subsidise his studio warehouse in Islington, partly to accommodate machinery during works at the Pratt Street Property and for the benefit of the Charity.

Development of Public Relations Strategy

- The Trustees had identified that there would be significant challenges in the marketing and presentation of a Charity intended to provide rehabilitation to prisoners and ex- offenders, noting that in many instances employers, including some in the charitable sector, are debarred from providing employment or contract work to those with a criminal record. They also noted a historical negative bias in the media with regard to reporting on criminal justice and prison issues. In parallel, the Charity was equally aware that its profile and visibility would eventually be a critical

factor in securing funding from statutory and local authority grant sources and philanthropy.

The Trustees further noted that the background of its Founder, convicted and sentenced for deception related offences in 2009 may require specialist public relations management and presentation, noting that there had been significant adverse media attention during 2009 – 10 and notwithstanding that the Founder's experiences during trial, sentence and imprisonment were dominant factor in hers and the trustees' decision to create a charitable rehabilitation programme and, indeed, establish the Charity.

- The PHA Group (www.thephagroup.com) was identified as the most appropriate and experienced public relations and marketing agency for branding and introducing the Charity to media. The Trustees reached this assessment on the basis of PHA's extensive portfolio of charitable sector clients, unique experience and contacts within the national and international news agencies, strong links with the fashion press and industries and track record of reputation management and damage control. Its only potential lacuna in service provision was with regard to its inability to provide assistance with sales agency introductions and retail development but this was identified as a separate and potentially justifiable future expense.

During the period, the PHA group was able to advise the Charity on its website, press releases and development of retail brand and skills in training vehicle . It also advised on the outline presentation of formatting of complementary websites for LWL and SKC. It provided guidance on social media campaigns and themes, also.

During the Period and following retention in June 2019, it was responsible for 4 media placements in the national media by way of either interview and / or article representing the Charity. In addition, it identified a suitable literary agent to manage the autobiographical publishing debut by the charity's founder on the basis that full publishing proceeds and associated rights would be assign solely for the benefit of the charity.

PHA managed the integration and introduction of the charity's partners during this phase. There was varying and limited cooperation and participation from representatives of LWL.

To reflect its brand development and future franchise and on the advice of PHA, the Trustees decided to apply for trade mark use of "Leather Inside Out" and "Inside Out" which was successfully obtained in August 2019 via external intellectual property law consultants.

Inventory and rebranding of SKC

- Marketing development and association with PHA, together with strong guidance from finance providers, Just Cash Flow PLC, enabled the Trustees to identify various issues with regard to both operating charitable affiliates, specifically that SKC (a retail outlet) required substantial investment in terms of market identity and stock identification and categorisation, noting that the business' previous owners had operated for several decades on a manual invoice docket system and without centralised record of its (8,000 item) stock, website or e-commerce platform. Hence the Charity's development of the SKC website was a dual marketing and commercial investment, serving as basis for an e-commerce platform and electronic payment mechanisms, both in store and online.

Significant resources were deployed into identifying, testing and acquiring the most appropriate e-commerce platform and web host vehicle. Thousands of stock items were manually counted, catalogued and assessed during the period, necessitating regular overtime with contract staff members and overseen and managed by the Charity's Head of Retail and Client Services.

Research and due diligence was engaged with regard to customers, clients and suppliers with a view to assessing the viability of price increases within market ranges of 300 - 500%, given that profit margins were limited to 50% in numerous instances. Emphasis was given to identifying stock items that were neither profitable nor saleable and contingencies were established to dispatch excess stock via online market forum such as Amazon and eBay for bulk-off load.

Visual merchandising was focal during the second half of the Period, with emphasis given to display components, interior retail lighting and outline display boards and allocation of space for anticipated e-commerce and online ordering.

Significant attention was given to logo identity, together with retail brand development. One of the charity employment contracts was for a designated photographer who was supported by the founder and director of a North London based photographic studio, retained under consultancy arrangements by the Charity.

LWL benefit for the retail development was limited over this period and to an extent the development of the retail data base served to indicate fundamental differences within the management teams at the Charity, LWL and SKC, specifically with regard to vision and the fundamental and underlying priority of the Charity, noting here that both Trustee and Consultant were minority shareholders of LWL and SKC . Although SKC's relevance and potential for DFL project became rapidly apparent, there was less ostensible synergy with LWL. The majority of the trustees were alert to the existence of potential conflict of interests between one of the trustees who was a minority shareholder in SKC and also a director of LWL, also that the Consultant was a director of SKC and LWL and had very different views with regard to the

development of the Charity's creative projects and skills in training programme development..

Development of Design for Life

As part of its inaugural business plan and registration documentation, the Charity had envisaged serving as an education provider for skills in training and apprenticeship programmes for designated categories of beneficiaries within the leather craft industry specifically and crafts in general. It had also identified potential for such programmes to produce and / or contribute to artefacts and accessories for onwards sale to retail for benefit to the charity.

During the concept development phase in the first quarter of 2019, the Trustees decided to implement and expand a sub division of the Charity, Design for Life ("DFL"), to serve as skills in training and education vehicle and as the basis for development of an on line retail sub division to be developed as an e-commerce platform in the first instance. It was identified that this platform could be, in the first instance, craft focused and usefully expanded in collaboration with new and established U.K. based designers, utilising the existing creative industry and retail off-taker partners and stakeholders of such designers. At the point of inception, the charity's partnerships with SKC and LWL were noted as being complementary to the extent that products from the former and skills, expertise and studio space from the latter could accommodate the project and in particular surplus warehouse space in the Pratt Street Property was assessed as being fundamental to the growth of DFL, in tandem with independent vocational and tertiary educational teaching programmes (see above).

The Charity decided to commence its marketing and web based launch by developing and launching its initiative as Design for Life ("DFL").

During the feasibility phases, the Charity focused on: (i) recruitment of an appropriate director for the DFL project and to support the Charity's launch generally (ii) identification of appropriate collaboration partners for the launch of DFL (iii) identifying and assessing appropriate web- based platform to support DFL for both marketing and onwards sales and e-commerce purposes as part of its wider media launch (iv) discussions with HMPPS as to implementation of placements for HMP residents during release on temporary licence ("ROTL") and craft teaching pilot programmes and (v) establishment of arrangements with LWL and SKC, both wholly subsidised by LIO to assist development of DFL:-

(i) As part of its conception of DFL, the Charity targeted a creative design expert with previous experience of industry and social enterprise and charitable endeavours identified as vital to LIO's mission and ethos. Critically, the target had also been aware of and engaged with LIO's four- year registration process and development

providing critical mentoring and industry expertise in this process. The trustees therefore resolved to the Charity's first Creative Director with overall responsibility for media and visual aspects of the Charity's launch, participant on its public relations development, supervision of website development and director of DFL. An appointment of Creative Director was therefore made by the Charity on 1 April 2019 on a fixed six months consultancy contract, in the first instance. Within the Period, this appointment was extended for an additional six - month period on 1 October 2019.

(ii) Identification of appropriate DFL collaboration partners for launch was led by the Creative Director who focusing on synergy of vision and commitment to social enterprise as integral to the Charity's values and ethos. Initially a client of LWL, a Scandinavian born, U.K. resident accessories designer was approached for feasibility discussions. Although it was clear from the outset that the target had appropriate craft and design skills and products for an in prison pilot project, there were readily identified challenges in developing charity policies with regard to intellectual property, retail income allocation and marketing steering with regard to the target designer, Critically the designer had limited understanding of prison issues.

During April 2019, two of the charity's trustees, volunteered their own independent label and company, Anat and Nicole Ltd., ("AN") as a pilot collaborator for DFL on a philanthropic, non-remunerative basis. Their signature leather braiding technique was identified as being appropriate for in prison work and rehabilitation skills in training, enabling beneficiary participants could be remunerated by piece work and on the basis of national minimum wage calculated criteria while being instructed in the basics of leather braiding.

It was agreed that AN would provide and fund leather and hardware for the project and contribute tuition and pattern cutting. In parallel, it concurred that LWL would support sample and production sample development, sample making, stitching and construction of the accessories to which leather braiding technique would be applied. On the basis that LWL was wholly subsidised by the Charity, including with regard to premises and employees, it was considered that this support would be part of LWL's contribution to the charity's broader charitable mission and growth. In the longer term and as part of the Charity's commitment to education and skills in training provision, both AN and LWL (through the Manager) agreed to extend their DFL contribution to provide an appropriate education vehicle.

In the first instance, the Chair of Trustees (the "Chair") and the Creative Director were jointly appointed as the Charity's education programme providers to teach and demonstrate the basics of leather braiding. Both were subject to HMPPS vetting and checks and approval.

(iii) DFL was contemplated in tandem with the Charity's press and website launch. The trustees decided against the investment of a separate investment on corporate logo and brand development during the initial phases of the business plan and determined to develop a charity website which could accommodate DFL and its initial launch phase and any retail sales as integral to the charity. Accordingly, appropriate software packages were identified to serve as base for both charity and DFL. It was decided further that brand launch would focus on the Charity but that DFL would be introduced in parallel.

(iv) Discussions with HMPPS began at the initiation of HMPPS during January 2019 with correspondence conducted by the Founder with onwards introduction to the Creative Director. The Charity, via the Founder, had been approached regarding the employment placement of a life sentence prisoner in an open female establishment on the SE of England. Both the prison and probation service were involved at an early stage and the charity was approved as an employment provider under Memorandum of Understanding executed in February 2019.

The Charity subsequently made contact with and began to provide financial and pastoral support to two beneficiaries in the male and female closed prison estates respectively.

Thereafter, the Charity commenced a pilot employment programme in May 2019, providing contract based employment to two male ex-offenders on licence, one of whom was retained on a full time employment basis, the other joining as a volunteer and moving onto a zero hours contract from June 2019 onwards.

In parallel, the Charity made a successful presentation at one female closed prison establishment in the SE of England with a view to providing (a) employment for release on temporary licence and (b) skills in training programme for DFL, subject to security clearance. With regards to (a) this resulted in a series of interviews for a retail position with SKC and an offer of employment which was accepted by the candidate.

In addition, the Charity finalised arrangements to make presentations for: (a) employment for release on temporary licence and (b) skills in training programme for DFL during the second half of October 2019, following conclusion of the reporting period. This presentation was conceived with a view to diminishing reliance on the Schools Programme (see below), to reflect the growing commercial needs of SKC and LIO's projected reliance on its income and to developing the Charity's mission.

During this period, the Charity established successful links with the National Probation Trust and started to identify procedures for retaining and monitoring prison based and ex-offender staff through generally developing links with probation.

(v) SKC naturally adapted to its support role with DFL on the basis that it was controlled by the Charity and its staff. To the extent that sourcing and sample items were required for the DFL project and the AN pilot, SKC delivered.

LWL proved more complex. Due to staffing changes in the aftermath of the illness and leave of absence of its Manager, the Consultant proved obstructive to the development of the DFL pilot and its marketing, particularly with regard to AN. On this basis and during the Reporting Period, there were significant delays in the development of the AN pilot range for DFL and its launch. It became clear that LWL managers had different visions for both SKC and LWL and the Charity to the concepts under investment and development by the majority of the Trustees and the Founder.

HMPPS

Before 14 October 2019, the Charity completed two presentations to female prisons in the closed and open estates respectively. It also developed solid contact with the London Probation and commenced preliminary discussions with representatives of the Community Rehabilitation Company. These introductions were indirectly facilitated by two external charities in the prison reform sector, who also provided some of the referrals for the pilot beneficiary programme.

Safe Guarding Concerns

During the early trial phase of the beneficiary programme, issues were identified with a beneficiary worker on licence and under employment contract. Despite the regular support of probation, it became apparent that the worker was experiencing serious problems in adapting to rehabilitation post release from custody: there were episodes of absenteeism and reported petty theft from SKC premises. It became clear that the worker was experiencing significant issues with abuse of recreational pharmaceuticals and mental health deterioration.

Although the Charity was instrumental in ensuring that the beneficiary in question was directed to appropriate medical supervision, the Trustees identified that the Charity's safe guarding policy, at this stage in discussion, needed to be implemented as a matter of priority. It also noted that the involvement of its temporary workers in matters of this nature were unsatisfactory and that ongoing development of the programme was inappropriate. It identified that the Charity would need to develop partnerships with agencies and NPOs which are able to provide focused support for issues relating to DWP, addiction, housing and relapse prevention.

In addition, the Charity also experienced difficulties with another beneficiary on licence who refused to provide details of his probation officer. Given that the beneficiary in question had been referred to the Charity through another charitable group, provisional and informal enquires were made through the Founder's main contact at the organisation and were ongoing towards the conclusion of the Period.

In parallel, throughout the Period it was noted that the Consultant expressed aggressive and inappropriate views regarding the worker in question and lack of awareness of the Charity's mission. In addition, the Consultant was reported as having committed breaches of HSE guidelines in the Pratt Street Property. Further during July 2019, he expressed offensive and racist views when meeting an ex-offender on licence who had come to visit the premises. Between May – August 2019, the Consultant also engaged in regular abusive and harassing contact with the Founder. The Consultant also displayed inappropriate and divisive behaviour with junior staff members. Although the Consultant's own welfare and health needs were given careful support and consideration by the Trustees, the majority of the Trustees and the Charity's finance provider determined that the Consultant was likely to cause significant reputational risk to the Charity and potential harm to future beneficiary workers and it was decided to explore alternative means of providing teaching services.

It was noted that all participants in the Schools Programme and one young employee (transferred under TUPE from SKC previous trading entity in August 2018), notwithstanding immense enthusiasm, struggled to varying degrees to adapt to the ethos of Charity and the affiliates and approached the mission with differing degrees of maturity and focus. At least two of these workers had serious health problems undisclosed until after work commencement. To the maximum extent feasible, pastoral support was provided during the Period which included support with university applications (in one instance an employment reference was provided to UCAS), medical referrals and assistance and mentoring. As with the Consultant (above), the Trustees concurred that the Charity did not have the charitable remit or expertise to manage such issues and that the Programme participants were unable to perform efficiently and professionally on an unsupervised basis and were resistant to line manager supervision and direction. The Charity recognised that its environment was not necessarily suitable for vulnerable, inexperienced young adults. The Trustees decided to terminate such engagements where and as soon as possible, noting that in any event some of the Programme participants were due to commence higher education and would be very likely to cease responsibilities in any event. The Trustees further noted that implementation of staff handbooks, disciplinary procedures was required as matter of urgency.

Management Concerns

At the end of the Period, in mid-September 2019, the Creative Director identified serious behavioural issues with another beneficiary worker and became sufficiently concerned about conduct to seek guidance from the Trustee. Her concerns were not supported hence she took advice from the majority of Trustees and sent the worker home. She subsequently indicated that the behaviour of the Trustee in question was volatile and aggressive. She also stated that the Trustee had orally made unspecified inferences of financial mismanagement. Subsequently, junior staff advised that the Consultant had attended the Charity offices and torn a poster from

the wall. The Consultant also refused to work on DFL projects on an ongoing basis for reasons unclear and told Charity staff that he intended to assume control of SKC.

On this basis, the majority of the Trustees requested a meeting so that they could discuss their concerns with the Trustee in question, including his apparent endorsement of the act of vandalism by the Consultant and refusal to work on DFL. In the event and without explanation, the Trustee declined and resigned his positions with the Charity, LWL and SKC on 23 September 2019 by email. Although provided to the Founder who had been tasked to organise the meeting in her secretarial capacity, it was passed to the Trustees who asked her to accept the resignation. The Trustee also noted that this was the only email received from the Trustee's Charity email account during his period in office i.e. 17 April 2018 – 23 September 2019 or otherwise. Upon meeting the Trustee to indicate the Trustees' acceptance of the resignation, the Founder enquired as to whether the Trustee was the author of the email. He confirmed that he was. On the Trustee's behalf, she therefore accepted his resignation.

At the conclusion of the Period, on 14 October 2019, a Charity employee resigned citing concerns about "conflict" concerning management which was implied to mean disagreements between the Consultant and the remaining Trustees, also the Founder's role in serving as liaison between the management groups at the Charity and the affiliates. At this point the Trustees resolved to seek earliest legal advice to revise the Charity's constitution, implement new procedures and to terminate the engagement of and Charity association with the Consultant on the basis that the Trustees felt his ongoing association with the Charity was potentially damaging to the Charity's stability and its reputation. His refusal to work with the remaining Trustees and his hostility to the Founder became a significant factor here.

Affiliates

From 24 September 2021 onwards, the Trustees determined that the existing structure was not effective. The allocations of shareholdings within LWL and SKC, although providing the Charity with a controlling majority in the case of SKC, were problematic on the basis that the minority shareholders were focused on personal profit and not the benefit of to the Charity and for public benefit. It was also agreed that the directors of these affiliates comprised of the Consultant, the Trustee and the Founder were unable to work together. It was therefore decided that urgent restructuring was required and that the advice be sought on the basis of the personal guarantees (see above).

The ongoing lease for the Pratt Street Property was also debated and assessed for viability on the basis that the Charity was unlikely to be able to maintain its relationship with LWL, at least.

Overall and from review of accounts for the Period, it was identified that both SKC and LWL were significant drains on charity resources and that its management group was incompatible with the Charity and Trustees. In light of the management concerns detailed above, it was resolved that best efforts be employed, including by incrementally expanding the consultancy services of the Founder to implement restructuring arrangements, including to formally reflect group structure (“Restructuring”).

Governance

At the end of the Period, the Trustees identified that there would be a need to consider its existing constitution with a view to amendment with regard to the minimum number of Trustees. It was resolved to make an interim appointment pending identification of appropriately qualified trustee candidates to bring the total number of trustees to five. It was also decided to commence a waiver application process with the Charities Commission to enable the potential appointment of the Founder, subject to statutory automatic disqualification (see above) as either trustee or manager, over and above her current advisory and administrative capacity.

At such point where it was no longer reliant on philanthropically supported and debt backed financing and was accountable and eligible for public funding, it determined to assess a financial controls policy but felt that at this stage of charity development such controls would be unnecessary. Pending such assessment, it was decided to formally consider retaining one of the Trustees as part-time / full -time consultant to oversee governance and finances with effect from 1 November 2019, seventeen days after the end of the Period.

The Charity’s need for procedures was seen as overdue priority. These were identified to include safe guarding, managing allegations against staff, processes to comply with HMPPS monitoring of relevant beneficiaries, recruitment criteria, internal communications and reporting lines, whistleblowing, health and safety and induction supervision and support and an employment handbook and template staff and consultancy contracts.

The lack of professional legal advisory services for charity law advice was noted, in light of the resignation of the Trustee and Manager and was highlighted as an urgent outstanding issue in order to implement governance structures. Due to a technical conflict of interest arising with regards to the services of *Wedlake Bell LLP*, the Charity was without charity law advisors and given the Founder’s background with the legal profession, her consultancy remit was further extended to assess with view to recommendations to and instructions by the Trustees, including with regard to procedural implementation and Restructuring (as above) which it was anticipated would prove both contentious and complex, potentially exposing the Charity to reputation risk.

In order to source and supervise an appropriate legal team to support the Trustees and effect the Restructuring (as above) it was decided that the Founder would extend her inter group liaison responsibilities and advisory role with effect from 30 September 2019 away from DFL, marketing and brand development and would instead focus on co-ordinating and project managing. On this basis and because of her concerns about interacting with the Consultant, the Founder ceased attendance at the Charity offices in September 2019 and thereafter worked off-site with regular liaison with the Charity's senior management team and trustees.

Finally, the Trustees also identified potential conflict of interest in the Founder's directorships of LWL and SKC and had preference that her relationship with both ceased, noting also that her legitimate managerial responsibilities with regard to these companies was - in practice – potentially at variance with her automatic disqualification from management roles within the Charity under the Charities Act 2011.

Financial Review

Review of the charity's financial position at the end of the Period

The Charity has anticipated that the Period would be focused on building an infrastructure to enable its longer- term growth by developing relationships with stakeholders, including donors, benefactors, grant and bid sources. It therefore focused on establishing a solid vehicle to facilitate delivery and implementation of the charity's mission by way of application of funds for investment for skills in training and education programmes, redevelopment of the SKC business to reflect modern retail practices and requirements of the fashion industry, equipping the existing LWL business to provide support for charitable purposes, with regard to education and skills in training projects, with the overarching objective of establishing a viable and sustainable beneficiary programme.

It was identified that these factors were critical to a phased charity launch and to provide basis on which grant and funding consultants could subsequently and in future be retained to enable the Charity to start applying for independent funding and to cease reliance on its sole benefactor, the Chair of the Trustees (the "Chair") who had provided funding to the Charity directly and indirectly both personally and through her wholly owned company, London Bag Factory via debt backed structured financing from Just Cash Flow PLC, pursuant to a facility agreement between London Bag Factory Ltd. and Leather Inside Out dated 12 October 2018 (the "Facility"). Personal Guarantees were also provided to Just Cash Flow PLC in respect of the Facility by the Trustees, the Founder and the Consultant.

From the outset of the Period, commencing six months from the Charity's registration and three months from the opening of its bank account with Metro PLC in July 2018,

it was agreed by the Trustees that significant investment would be required by the Charity to achieve its objectives and that it would very likely run at a loss during the period, noting again, by emphasis, that the Trustees, the Consultant and Founder had executed personal guarantees with the Chair's finance arranger, Just Cash Flow PLC, to accommodate long term compliance with the Charity's mission and delivery of objectives in a financially responsible manner. Based on the scale of its support to the Chair and in light of these personal guarantees, Just Cash Flow PLC also assumed a rigorous and regular monitoring of the Charity by way of stringent borrowing request procedures and regular meetings and communications with the Founder and the majority of the Trustees, noting that the Trustee and Manager was on sick leave for four months within the Period, failed to provide written responses to any communications from the majority of the Trustees, the Founder and JCF and, in any event, resigned shortly before the end of the Period.

It was not expected that there could be any significant repayments of the Charity's loan from London Bag Factory under the Facility during this time; such meaningful repayments were not anticipated until 2022 earliest and during this period, the Charity relied on the ongoing support of the Chair. This assessment was taken on the likely lead time of realising profit from (i) a rebranded SKC, (ii) significant revenue from DFL, (iii) development of a prison law franchise, (iv) bid and grant support for education and skills in training programmes, (v) potential publishing and associated right income from the Founders proposed contract with Robertson Murray, literary agents and (vi) the development of a discrete studio and manufacture centre for leather craft and design, noting here that the Trustees considered LWL was highly unlikely to be able to deliver this function on basis of its management and the hostility of the Consultant towards the Trustees and Founder,

Principle factors which led to the extent of excess of expenditure of income of £309,680 during the Period, over and above pre-projected expenditure on Charity repayments to the Chair (representing pre financing debts incurred by the Consultant totalling £345, 874 *deducted at completion of Financing in October 2018*), property and human resources were factored on expenses including those mainly arising at the commencement of the Period: (i) debts reflected as debtor liability of £307,138 incurred by the Consultant in respect of the Charity's investment in LWL; (ii) legal professional fees incurred in respect of the financing by *Wedlake Bell LLP* and *Forsters LLP* and property advice by *Hodge Jones & Allen LLP* to the Consultant, totalling £140, 943 which became due and payable *following and during* the accounting period 2017-8, noting that Charity financing completed on 8 October 2018. (Note, It is not anticipated by the Charity that these expenses (i) – (ii) could recur and noted further that the Charity's right with regard to recovery from the Consultant are expressly reserved); and (iii) ongoing governance, management and financial control issues arising within LWL and SKC which led to significant outlay of expenditure by the Charity for limited return, including with regard to its support of LWL's lease for the Pratt Street Property which equated to nearly £80,000 per

annum and also with regard to the Consultant's north London based studio warehouse which the Pratt Street Property had been acquired to replace at monthly rental of £980 per month.

An incidental expense that is noted here also regards unauthorised travel costs incurred by the Consultant who relied on taxi services to travel to and from Camden on a daily basis from May 2019 onwards for reasons unclear. These expenses were not itemised to the Charity until after the Period but are nonetheless reflected in the accounts.

Finally, it was identified that the Charity had not been able to make any HMRC applications reflecting of its charitable status nor bids for grants or funds available to charities with the exception of its 80% charitable exemption for council tax provided by Camden Council for 10 Pratt Mews, London NW1 0AD. The trading and incorporation status of SKC was therefore considered priority area for assessment for the forthcoming financial year.

Note, for the Period and for accounting purposes, income from LWL and SKC revenue is not reflected.

Structure, Governance and Management

Type of governing document

- Constitution, CIO

Trustee selection methods

- In selecting individuals for appointment as charity trustees, the Charity trustees must have regard to the skills, knowledge and experience needed for the effective administration of the CIO. Further the Charity trustees must also have demonstrable understanding of the Charity's work with regard to the circumstances of its beneficiaries and any wider benefits to society as a whole.

Reference and Administrative details

Charity Name

- Leather Inside Out

Other name the charity uses

- LIO

Registered charity number

- 1177993

Charity's principal address

- 10 Pratt Mews, London NW1 0AD

Names of the charity trustees who manage the charity

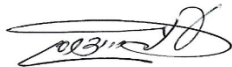
- Nicole Marlene Riedweg (Chair)
- Anat McKenzie
- Pavlos Vrahimis (resigned 23 September 2019)

Declarations

The trustees declare they have approved the trustees' report above.

Signed on behalf of the charity's trustees

Signature



Full Name Anat McKenzie

Position Trustee

Date 29 January 2021

LEATHER INSIDE OUT

Report and Accounts

14 October 2019

CHARITY NUMBER: 1177993

Represented by:
C. MICHAEL & CO
Accountants
35 Grafton Way
London W1T 5DB

LEATHER INSIDE OUT

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LEATHER INSIDE OUT
Business Information

Charity Informations

Accountants
C. MICHAEL & CO
35 GRAFTON WAY
LONDON W1T 5DB

Bankers
Metro Bank
One Southampton Road
LONDON WC1B 5HA


Charity Registration No: 1177993

Officers:
Chairperson : Miss N. M. Riedweg
Secretary : V. K. L. Johns

LEATHER INSIDE OUT

REPORT OF THE ACCOUNTANTS TO THE MEMBERS OF Leather Inside Out

In our opinion the above Balance Sheet and annexed Income & Expenditure account set out on pages 2 to 5 present a true & fair view of the state of the fund's affairs as at 14/10/2019. and comply with the Charity Act 2011.

 C. MICHAEL
A.C.I.S.; ACCA
C. MICHAEL & CO
ACCOUNTANTS
35 GRAFTON WAY
LONDON W1T 5DB

21 August 2020

LEATHER INSIDE OUT
Income and Expenditure Account
for the year ended 14 October 2019

| | 2019 £ |
|--|-------------------------|
| Income | 26,564 |
| Cost of sales | 15,939 |
| Gross profit | <u>10,625</u> |
| Other income/Interest | <u>36</u> |
| | <u>10,661</u> |
| Expenses | |
| Employee costs | 131,247 |
| Premises costs | 20,040 |
| Repairs | 5,716 |
| Legal and professional costs | 140,943 |
| General administrative expenses | 4,184 |
| Travel and subsistence | 1,782 |
| Advertising, promotion and entertainment | 8,106 |
| Other finance charges | 1 |
| Other expenses | 8,322 |
| | <u>320,341</u> |
| Excess of Income over Expenditure | <u>(309,680)</u> |

LEATHER INSIDE OUT
Balance Sheet
as at 14 October 2019

| | Notes | 2019 £ |
|---|---------|------------------|
| Fixed assets | | |
| Equipment | 2 | 3,500 |
| | | <u>3,500</u> |
| Current assets | | |
| Stock | 12,136 | |
| Debtors and prepayments | 5 | 307,138 |
| Bank/building society balances | 4 | 8,322 |
| Cash in hand | | |
| | | <u>327,596</u> |
| Current liabilities | | |
| Loans | 642,809 | |
| Accruals | 2,000 | |
| | | <u>644,809</u> |
| Net current (liabilities)/assets | | (317,213) |
| Net (liabilities)/assets | | <u>(313,713)</u> |
| ACCUMULATED FUND | | |
| Balance at start of period | | (4,033) |
| Excess of Expenditure over Income | | (309,680) |
| | | <u>(313,713)</u> |

Approved & agreedChairperson

.....Secretary

LEATHER INSIDE OUT**Notes to the Accounts****for the year ended 14 October 2019****1 Income and Expenditure account analysis**

| | 2019 |
|---|----------------|
| Income | £ |
| Turnover | 26,564 |
| | <u>26,564</u> |
| Cost of sales | |
| Cost of Sales | 11,406 |
| Decrease in stocks | 4,533 |
| | <u>15,939</u> |
| Employee costs | |
| Wages and salaries & Travelling | 110,724 |
| Public Relations & Consultancy | 18,534 |
| Staff training and welfare | 1,989 |
| | <u>131,247</u> |
| Premises costs | |
| Rates | 16,012 |
| Insurance | 2,125 |
| Light and heat | 1,903 |
| | <u>20,040</u> |
| Repairs | |
| Repairs | 5,716 |
| | <u>5,716</u> |
| Legal and Professional Costs | |
| Other Legal and professional | 138,943 |
| Accountancy | 2,000 |
| | <u>140,943</u> |
| General administrative expenses | |
| Telephone and fax | 2,431 |
| Stationery and printing | 298 |
| Donations | 500 |
| Postages | 260 |
| Software | 695 |
| | <u>4,184</u> |
| Travel and subsistence | |
| Travel and subsistence | 1,782 |
| | <u>1,782</u> |
| Advertising, promotion and entertainment | |
| Advertising and PR | 8,106 |
| | <u>8,106</u> |
| Other finance charges | |
| Bank charges | 1 |
| | <u>1</u> |

LEATHER INSIDE OUT**Notes to the Accounts****for the year ended 14 October 2019****Other expenses**

| | |
|----------------|--------------|
| Website | 517 |
| Cleaning | 249 |
| Other expenses | <u>7,556</u> |
| | <u>8,322</u> |

OTHER INCOME

| | |
|-------------------|-----------|
| Interest Received | <u>36</u> |
| | <u>36</u> |

LEATHER INSIDE OUT
Notes to the Accounts
for the year ended 14 October 2019

2 Equipments and Improvements

| | Equipments £ | Total £ |
|-----------------------|-------------------------|--------------------|
| Cost | | |
| At 15 October 2018 | <u>3,500</u> | <u>3,500</u> |
| At 14 October 2019 | <u>3,500</u> | <u>3,500</u> |
| Net book value | | |
| At 14 October 2019 | <u>3,500</u> | <u>3,500</u> |
| At 14 October 2018 | <u>3,500</u> | <u>3,500</u> |



Trustees' Annual Report for the period

From 15 October 2018 Period start date
To 14 October 2019 Period end date

(the "Period")

Charity name: Leather Inside Out

Charity registration number: 1177993

Objectives and Activities

Summary of the purposes of the charity as set out in its governing document

The objectives of Leather Inside Out are:

- For the public benefit, to advance the education of those committed to the custody of HMP and YOI by the courts of England and Wales and, in partnership with the National Probation Service, on their release from custody
- The prevention or relief of poverty for the public benefit by providing ex-offenders with skills, resources and employment

- For the public benefit, the promotion of equality and diversity by the elimination of discrimination for those convicted or remanded by a court in England or Wales,
- For the public benefit, the relief of those in need by reason or consequence of conviction, sentence or remand by a court in England and Wales by delivering education, training and employment opportunities.

Summary of the main activities in relation to those purposes for the public benefit, in particular, the activities, projects or services identified in the accounts.

- Ongoing development of commercial real estate (“CRE”) at 6 Pratt Street London NW1 0AB (the “Pratt Street Property”) and 10 Pratt Mews, London NW1 0AB in order to facilitate delivery and implementation of the projects, services and activities contemplated in the governing document of the charity (the “Charity”).
- Development, application and management of financing and income sources in order to support the CRE supported by the Charity.
- Supporting, developing an expanding two non-charitable Charity controlled affiliates, SKC (Camden) Ltd, (“SKC”) and Leather Works London Ltd. (“LWL”) (each an “affiliate”, together the “affiliates”) to expand the purposes for the public benefit of the Charity with particular regard to the delivery of training and employment opportunities, the promotion and the delivery of education programmes.
- Development of skills in training and retail label through the development of Charity’s the Design for Life programme.
- Developing and implementing a School Programme (target group 16-19 years) with local education providers in North London to support the integration of SKC (Camden) Ltd.(“SKC”) into the Charity.
- Developing and piloting a trial beneficiary programme with open and closed prisons in England and Wales and with probation services.
- Establishing and developing relationships with other charities in the sector.
- Instigating preliminary launch of the Charity via social and reporting media.

Statement confirming whether the trustees have had regard to the guidance issued by the Charity Commission on public benefit

I hereby confirm that the trustees have had regard and reference to the guidance issued by the Charity Commission on public benefit.

Achievements and Performance

By 14 October 2019 and to facilitate the provision of its activities and services for public benefit, the Charity has established and / or states as follows-

Employment

- The Charity oversaw the recruitment of three employees. These employees were intended to provide support to the Charity Launch, its PR Initiative and its feasibility studies into the structures and expansion of LWL and SKC to support the Charity and for public benefit. During the period and while the viability of the Charity's model under its 2018 business plan was being contemplated, it maintained a policy of retaining its senior managerial staff under consultancy arrangements, including one beneficiary worker with specialist multi-media skills. Its Founder was also retained to provide flexible advisory assistance to the Charity and administrative support to the trustees. Its recruitment policy over the Period was skills based which to an extent highlighted the importance of permanent staff having strong background in specific administrative and technological areas as well as a solid understanding of and commitment to the Charity's ethos, objectives and mission.

In order to support and develop SKC, the Charity funded regular flexible contract arrangements with five workers who had been introduced to the Charity via its Schools Programme who were retained for varying period of 8 - 40 hours per week on an hourly rate basis and in excess of the National Minimum Wage. This strategy enabled flexibility during the assessment phase.

In order to enable LWL to support the Charity, the Charity authorised the recruitment of one staff member on a part time employment contract, together with three workers with varying degrees of skills and experience on a contract basis. These workers supplemented the existing permanent employment contact of LWL's manager (also a trustee of the Charity) (variously the "Manager" and the "Trustee"), also a consultancy arrangement with an experienced leather craft designer (the "Consultant"). During the period and until his resignation from LWL and the Charity on 24 September 2020, the Manager was the line manager and reporting line for LWL staff, although during his leaves of absence in November 2018 and April - August 2019, this responsibility was assumed by the Consultant, on an acting basis.

Note throughout the period and on the basis that the Consultant's North London based premises were severely restricted due to an arrangement with the Health and Safety Executive, the Consultant was permitted to Charity premises for weekly Saturday teaching sessions, noting for the avoidance of doubt that any income derived from this teaching was for benefit of the Consultant only.

Trial Beneficiary Programme

The phased, controlled staffing strategy enabled the Charity to test a pilot beneficiary programme which was trialled with five beneficiaries, two serving custodial sentences in the female prison estate, two males on supervised licence with the National Probation Service and the Community Rehabilitation Company respectively,

one male remanded in custody, subsequently bailed under home detention curfew. Such staff remained under the supervision of the Charity management who maintained liaison and support with HMPPS, including with regard to compliance with licence conditions.

Property Refurbishment

- Refurbishment of the Pratt St Property was conceived in phases with priority being provided to the main warehouse facility on the basis that this would accommodate income generating activity for the Charity, via LWL's Charity subsidised manufacturing work, and as an operational base for the DFL programme under direct Charity supervision.

- Building works included installation of new bathroom and sanitation facilities, kitchen and eating facilities, electrical and lighting improvements to appropriate HSE and HMPPS standards.

- During the course of building works, the Charity identified that there were significant defects within the Pratt Street Property, specifically regarding its common area (entrance) and with regard to ancillary warehouse space, both areas demonstrating significant damp egress as consequence of leaking roof. Pending completion of structural survey of the Pratt St Property, the Charity resolved to avoid additional expenditure on the building until early 2020, at this point it had proposed to have formalised a grant and funding strategy which would potentially justify expansion of existing space for education facilities and teaching.

- throughout the development phase of the Property substantial stock overspill from the SKC business was stored and catalogued in one of the rear warehouses of the Pratt Street Property.

During this refurbishment period and as part of its contractual agreement with the Consultant, the Charity continued to fully subsidise his studio warehouse in Islington, partly to accommodate machinery during works at the Pratt Street Property and for the benefit of the Charity.

Development of Public Relations Strategy

- The Trustees had identified that there would be significant challenges in the marketing and presentation of a Charity intended to provide rehabilitation to prisoners and ex- offenders, noting that in many instances employers, including some in the charitable sector, are debarred from providing employment or contract work to those with a criminal record. They also noted a historical negative bias in the media with regard to reporting on criminal justice and prison issues. In parallel, the Charity was equally aware that its profile and visibility would eventually be a critical

factor in securing funding from statutory and local authority grant sources and philanthropy.

The Trustees further noted that the background of its Founder, convicted and sentenced for deception related offences in 2009 may require specialist public relations management and presentation, noting that there had been significant adverse media attention during 2009 – 10 and notwithstanding that the Founder's experiences during trial, sentence and imprisonment were dominant factor in hers and the trustees' decision to create a charitable rehabilitation programme and, indeed, establish the Charity.

- The PHA Group (www.thephagroup.com) was identified as the most appropriate and experienced public relations and marketing agency for branding and introducing the Charity to media. The Trustees reached this assessment on the basis of PHA's extensive portfolio of charitable sector clients, unique experience and contacts within the national and international news agencies, strong links with the fashion press and industries and track record of reputation management and damage control. Its only potential lacuna in service provision was with regard to its inability to provide assistance with sales agency introductions and retail development but this was identified as a separate and potentially justifiable future expense.

During the period, the PHA group was able to advise the Charity on its website, press releases and development of retail brand and skills in training vehicle . It also advised on the outline presentation of formatting of complementary websites for LWL and SKC. It provided guidance on social media campaigns and themes, also.

During the Period and following retention in June 2019, it was responsible for 4 media placements in the national media by way of either interview and / or article representing the Charity. In addition, it identified a suitable literary agent to manage the autobiographical publishing debut by the charity's founder on the basis that full publishing proceeds and associated rights would be assign solely for the benefit of the charity.

PHA managed the integration and introduction of the charity's partners during this phase. There was varying and limited cooperation and participation from representatives of LWL.

To reflect its brand development and future franchise and on the advice of PHA, the Trustees decided to apply for trade mark use of "Leather Inside Out" and "Inside Out" which was successfully obtained in August 2019 via external intellectual property law consultants.

Inventory and rebranding of SKC

- Marketing development and association with PHA, together with strong guidance from finance providers, Just Cash Flow PLC, enabled the Trustees to identify various issues with regard to both operating charitable affiliates, specifically that SKC (a retail outlet) required substantial investment in terms of market identity and stock identification and categorisation, noting that the business' previous owners had operated for several decades on a manual invoice docket system and without centralised record of its (8,000 item) stock, website or e-commerce platform. Hence the Charity's development of the SKC website was a dual marketing and commercial investment, serving as basis for an e-commerce platform and electronic payment mechanisms, both in store and online.

Significant resources were deployed into identifying, testing and acquiring the most appropriate e-commerce platform and web host vehicle. Thousands of stock items were manually counted, catalogued and assessed during the period, necessitating regular overtime with contract staff members and overseen and managed by the Charity's Head of Retail and Client Services.

Research and due diligence was engaged with regard to customers, clients and suppliers with a view to assessing the viability of price increases within market ranges of 300 - 500%, given that profit margins were limited to 50% in numerous instances. Emphasis was given to identifying stock items that were neither profitable nor saleable and contingencies were established to dispatch excess stock via online market forum such as Amazon and eBay for bulk-off load.

Visual merchandising was focal during the second half of the Period, with emphasis given to display components, interior retail lighting and outline display boards and allocation of space for anticipated e-commerce and online ordering.

Significant attention was given to logo identity, together with retail brand development. One of the charity employment contracts was for a designated photographer who was supported by the founder and director of a North London based photographic studio, retained under consultancy arrangements by the Charity.

LWL benefit for the retail development was limited over this period and to an extent the development of the retail data base served to indicate fundamental differences within the management teams at the Charity, LWL and SKC, specifically with regard to vision and the fundamental and underlying priority of the Charity, noting here that both Trustee and Consultant were minority shareholders of LWL and SKC . Although SKC's relevance and potential for DFL project became rapidly apparent, there was less ostensible synergy with LWL. The majority of the trustees were alert to the existence of potential conflict of interests between one of the trustees who was a minority shareholder in SKC and also a director of LWL, also that the Consultant was a director of SKC and LWL and had very different views with regard to the

development of the Charity's creative projects and skills in training programme development..

Development of Design for Life

As part of its inaugural business plan and registration documentation, the Charity had envisaged serving as an education provider for skills in training and apprenticeship programmes for designated categories of beneficiaries within the leather craft industry specifically and crafts in general. It had also identified potential for such programmes to produce and / or contribute to artefacts and accessories for onwards sale to retail for benefit to the charity.

During the concept development phase in the first quarter of 2019, the Trustees decided to implement and expand a sub division of the Charity, Design for Life ("DFL"), to serve as skills in training and education vehicle and as the basis for development of an on line retail sub division to be developed as an e-commerce platform in the first instance. It was identified that this platform could be, in the first instance, craft focused and usefully expanded in collaboration with new and established U.K. based designers, utilising the existing creative industry and retail off-taker partners and stakeholders of such designers. At the point of inception, the charity's partnerships with SKC and LWL were noted as being complementary to the extent that products from the former and skills, expertise and studio space from the latter could accommodate the project and in particular surplus warehouse space in the Pratt Street Property was assessed as being fundamental to the growth of DFL, in tandem with independent vocational and tertiary educational teaching programmes (see above).

The Charity decided to commence its marketing and web based launch by developing and launching its initiative as Design for Life ("DFL").

During the feasibility phases, the Charity focused on: (i) recruitment of an appropriate director for the DFL project and to support the Charity's launch generally (ii) identification of appropriate collaboration partners for the launch of DFL (iii) identifying and assessing appropriate web- based platform to support DFL for both marketing and onwards sales and e-commerce purposes as part of its wider media launch (iv) discussions with HMPPS as to implementation of placements for HMP residents during release on temporary licence ("ROTL") and craft teaching pilot programmes and (v) establishment of arrangements with LWL and SKC, both wholly subsidised by LIO to assist development of DFL:-

(i) As part of its conception of DFL, the Charity targeted a creative design expert with previous experience of industry and social enterprise and charitable endeavours identified as vital to LIO's mission and ethos. Critically, the target had also been aware of and engaged with LIO's four- year registration process and development

providing critical mentoring and industry expertise in this process. The trustees therefore resolved to the Charity's first Creative Director with overall responsibility for media and visual aspects of the Charity's launch, participant on its public relations development, supervision of website development and director of DFL. An appointment of Creative Director was therefore made by the Charity on 1 April 2019 on a fixed six months consultancy contract, in the first instance. Within the Period, this appointment was extended for an additional six - month period on 1 October 2019.

(ii) Identification of appropriate DFL collaboration partners for launch was led by the Creative Director who focusing on synergy of vision and commitment to social enterprise as integral to the Charity's values and ethos. Initially a client of LWL, a Scandinavian born, U.K. resident accessories designer was approached for feasibility discussions. Although it was clear from the outset that the target had appropriate craft and design skills and products for an in prison pilot project, there were readily identified challenges in developing charity policies with regard to intellectual property, retail income allocation and marketing steering with regard to the target designer, Critically the designer had limited understanding of prison issues.

During April 2019, two of the charity's trustees, volunteered their own independent label and company, Anat and Nicole Ltd., ("AN") as a pilot collaborator for DFL on a philanthropic, non-remunerative basis. Their signature leather braiding technique was identified as being appropriate for in prison work and rehabilitation skills in training, enabling beneficiary participants could be remunerated by piece work and on the basis of national minimum wage calculated criteria while being instructed in the basics of leather braiding.

It was agreed that AN would provide and fund leather and hardware for the project and contribute tuition and pattern cutting. In parallel, it concurred that LWL would support sample and production sample development, sample making, stitching and construction of the accessories to which leather braiding technique would be applied. On the basis that LWL was wholly subsidised by the Charity, including with regard to premises and employees, it was considered that this support would be part of LWL's contribution to the charity's broader charitable mission and growth. In the longer term and as part of the Charity's commitment to education and skills in training provision, both AN and LWL (through the Manager) agreed to extend their DFL contribution to provide an appropriate education vehicle.

In the first instance, the Chair of Trustees (the "Chair") and the Creative Director were jointly appointed as the Charity's education programme providers to teach and demonstrate the basics of leather braiding. Both were subject to HMPPS vetting and checks and approval.

(iii) DFL was contemplated in tandem with the Charity's press and website launch. The trustees decided against the investment of a separate investment on corporate logo and brand development during the initial phases of the business plan and determined to develop a charity website which could accommodate DFL and its initial launch phase and any retail sales as integral to the charity. Accordingly, appropriate software packages were identified to serve as base for both charity and DFL. It was decided further that brand launch would focus on the Charity but that DFL would be introduced in parallel.

(iv) Discussions with HMPPS began at the initiation of HMPPS during January 2019 with correspondence conducted by the Founder with onwards introduction to the Creative Director. The Charity, via the Founder, had been approached regarding the employment placement of a life sentence prisoner in an open female establishment on the SE of England. Both the prison and probation service were involved at an early stage and the charity was approved as an employment provider under Memorandum of Understanding executed in February 2019.

The Charity subsequently made contact with and began to provide financial and pastoral support to two beneficiaries in the male and female closed prison estates respectively.

Thereafter, the Charity commenced a pilot employment programme in May 2019, providing contract based employment to two male ex-offenders on licence, one of whom was retained on a full time employment basis, the other joining as a volunteer and moving onto a zero hours contract from June 2019 onwards.

In parallel, the Charity made a successful presentation at one female closed prison establishment in the SE of England with a view to providing (a) employment for release on temporary licence and (b) skills in training programme for DFL, subject to security clearance. With regards to (a) this resulted in a series of interviews for a retail position with SKC and an offer of employment which was accepted by the candidate.

In addition, the Charity finalised arrangements to make presentations for: (a) employment for release on temporary licence and (b) skills in training programme for DFL during the second half of October 2019, following conclusion of the reporting period. This presentation was conceived with a view to diminishing reliance on the Schools Programme (see below), to reflect the growing commercial needs of SKC and LIO's projected reliance on its income and to developing the Charity's mission.

During this period, the Charity established successful links with the National Probation Trust and started to identify procedures for retaining and monitoring prison based and ex-offender staff through generally developing links with probation.

(v) SKC naturally adapted to its support role with DFL on the basis that it was controlled by the Charity and its staff. To the extent that sourcing and sample items were required for the DFL project and the AN pilot, SKC delivered.

LWL proved more complex. Due to staffing changes in the aftermath of the illness and leave of absence of its Manager, the Consultant proved obstructive to the development of the DFL pilot and its marketing, particularly with regard to AN. On this basis and during the Reporting Period, there were significant delays in the development of the AN pilot range for DFL and its launch. It became clear that LWL managers had different visions for both SKC and LWL and the Charity to the concepts under investment and development by the majority of the Trustees and the Founder.

HMPPS

Before 14 October 2019, the Charity completed two presentations to female prisons in the closed and open estates respectively. It also developed solid contact with the London Probation and commenced preliminary discussions with representatives of the Community Rehabilitation Company. These introductions were indirectly facilitated by two external charities in the prison reform sector, who also provided some of the referrals for the pilot beneficiary programme.

Safe Guarding Concerns

During the early trial phase of the beneficiary programme, issues were identified with a beneficiary worker on licence and under employment contract. Despite the regular support of probation, it became apparent that the worker was experiencing serious problems in adapting to rehabilitation post release from custody: there were episodes of absenteeism and reported petty theft from SKC premises. It became clear that the worker was experiencing significant issues with abuse of recreational pharmaceuticals and mental health deterioration.

Although the Charity was instrumental in ensuring that the beneficiary in question was directed to appropriate medical supervision, the Trustees identified that the Charity's safe guarding policy, at this stage in discussion, needed to be implemented as a matter of priority. It also noted that the involvement of its temporary workers in matters of this nature were unsatisfactory and that ongoing development of the programme was inappropriate. It identified that the Charity would need to develop partnerships with agencies and NPOs which are able to provide focused support for issues relating to DWP, addiction, housing and relapse prevention.

In addition, the Charity also experienced difficulties with another beneficiary on licence who refused to provide details of his probation officer. Given that the beneficiary in question had been referred to the Charity through another charitable group, provisional and informal enquires were made through the Founder's main contact at the organisation and were ongoing towards the conclusion of the Period.

In parallel, throughout the Period it was noted that the Consultant expressed aggressive and inappropriate views regarding the worker in question and lack of awareness of the Charity's mission. In addition, the Consultant was reported as having committed breaches of HSE guidelines in the Pratt Street Property. Further during July 2019, he expressed offensive and racist views when meeting an ex-offender on licence who had come to visit the premises. Between May – August 2019, the Consultant also engaged in regular abusive and harassing contact with the Founder. The Consultant also displayed inappropriate and divisive behaviour with junior staff members. Although the Consultant's own welfare and health needs were given careful support and consideration by the Trustees, the majority of the Trustees and the Charity's finance provider determined that the Consultant was likely to cause significant reputational risk to the Charity and potential harm to future beneficiary workers and it was decided to explore alternative means of providing teaching services.

It was noted that all participants in the Schools Programme and one young employee (transferred under TUPE from SKC previous trading entity in August 2018), notwithstanding immense enthusiasm, struggled to varying degrees to adapt to the ethos of Charity and the affiliates and approached the mission with differing degrees of maturity and focus. At least two of these workers had serious health problems undisclosed until after work commencement. To the maximum extent feasible, pastoral support was provided during the Period which included support with university applications (in one instance an employment reference was provided to UCAS), medical referrals and assistance and mentoring. As with the Consultant (above), the Trustees concurred that the Charity did not have the charitable remit or expertise to manage such issues and that the Programme participants were unable to perform efficiently and professionally on an unsupervised basis and were resistant to line manager supervision and direction. The Charity recognised that its environment was not necessarily suitable for vulnerable, inexperienced young adults. The Trustees decided to terminate such engagements where and as soon as possible, noting that in any event some of the Programme participants were due to commence higher education and would be very likely to cease responsibilities in any event. The Trustees further noted that implementation of staff handbooks, disciplinary procedures was required as matter of urgency.

Management Concerns

At the end of the Period, in mid-September 2019, the Creative Director identified serious behavioural issues with another beneficiary worker and became sufficiently concerned about conduct to seek guidance from the Trustee. Her concerns were not supported hence she took advice from the majority of Trustees and sent the worker home. She subsequently indicated that the behaviour of the Trustee in question was volatile and aggressive. She also stated that the Trustee had orally made unspecified inferences of financial mismanagement. Subsequently, junior staff advised that the Consultant had attended the Charity offices and torn a poster from

the wall. The Consultant also refused to work on DFL projects on an ongoing basis for reasons unclear and told Charity staff that he intended to assume control of SKC.

On this basis, the majority of the Trustees requested a meeting so that they could discuss their concerns with the Trustee in question, including his apparent endorsement of the act of vandalism by the Consultant and refusal to work on DFL. In the event and without explanation, the Trustee declined and resigned his positions with the Charity, LWL and SKC on 23 September 2019 by email. Although provided to the Founder who had been tasked to organise the meeting in her secretarial capacity, it was passed to the Trustees who asked her to accept the resignation. The Trustee also noted that this was the only email received from the Trustee's Charity email account during his period in office i.e. 17 April 2018 – 23 September 2019 or otherwise. Upon meeting the Trustee to indicate the Trustees' acceptance of the resignation, the Founder enquired as to whether the Trustee was the author of the email. He confirmed that he was. On the Trustee's behalf, she therefore accepted his resignation.

At the conclusion of the Period, on 14 October 2019, a Charity employee resigned citing concerns about "conflict" concerning management which was implied to mean disagreements between the Consultant and the remaining Trustees, also the Founder's role in serving as liaison between the management groups at the Charity and the affiliates. At this point the Trustees resolved to seek earliest legal advice to revise the Charity's constitution, implement new procedures and to terminate the engagement of and Charity association with the Consultant on the basis that the Trustees felt his ongoing association with the Charity was potentially damaging to the Charity's stability and its reputation. His refusal to work with the remaining Trustees and his hostility to the Founder became a significant factor here.

Affiliates

From 24 September 2021 onwards, the Trustees determined that the existing structure was not effective. The allocations of shareholdings within LWL and SKC, although providing the Charity with a controlling majority in the case of SKC, were problematic on the basis that the minority shareholders were focused on personal profit and not the benefit of to the Charity and for public benefit. It was also agreed that the directors of these affiliates comprised of the Consultant, the Trustee and the Founder were unable to work together. It was therefore decided that urgent restructuring was required and that the advice be sought on the basis of the personal guarantees (see above).

The ongoing lease for the Pratt Street Property was also debated and assessed for viability on the basis that the Charity was unlikely to be able to maintain its relationship with LWL, at least.

Overall and from review of accounts for the Period, it was identified that both SKC and LWL were significant drains on charity resources and that its management group was incompatible with the Charity and Trustees. In light of the management concerns detailed above, it was resolved that best efforts be employed, including by incrementally expanding the consultancy services of the Founder to implement restructuring arrangements, including to formally reflect group structure (“Restructuring”).

Governance

At the end of the Period, the Trustees identified that there would be a need to consider its existing constitution with a view to amendment with regard to the minimum number of Trustees. It was resolved to make an interim appointment pending identification of appropriately qualified trustee candidates to bring the total number of trustees to five. It was also decided to commence a waiver application process with the Charities Commission to enable the potential appointment of the Founder, subject to statutory automatic disqualification (see above) as either trustee or manager, over and above her current advisory and administrative capacity.

At such point where it was no longer reliant on philanthropically supported and debt backed financing and was accountable and eligible for public funding, it determined to assess a financial controls policy but felt that at this stage of charity development such controls would be unnecessary. Pending such assessment, it was decided to formally consider retaining one of the Trustees as part-time / full -time consultant to oversee governance and finances with effect from 1 November 2019, seventeen days after the end of the Period.

The Charity’s need for procedures was seen as overdue priority. These were identified to include safe guarding, managing allegations against staff, processes to comply with HMPPS monitoring of relevant beneficiaries, recruitment criteria, internal communications and reporting lines, whistleblowing, health and safety and induction supervision and support and an employment handbook and template staff and consultancy contracts.

The lack of professional legal advisory services for charity law advice was noted, in light of the resignation of the Trustee and Manager and was highlighted as an urgent outstanding issue in order to implement governance structures. Due to a technical conflict of interest arising with regards to the services of *Wedlake Bell LLP*, the Charity was without charity law advisors and given the Founder’s background with the legal profession, her consultancy remit was further extended to assess with view to recommendations to and instructions by the Trustees, including with regard to procedural implementation and Restructuring (as above) which it was anticipated would prove both contentious and complex, potentially exposing the Charity to reputation risk.

In order to source and supervise an appropriate legal team to support the Trustees and effect the Restructuring (as above) it was decided that the Founder would extend her inter group liaison responsibilities and advisory role with effect from 30 September 2019 away from DFL, marketing and brand development and would instead focus on co-ordinating and project managing. On this basis and because of her concerns about interacting with the Consultant, the Founder ceased attendance at the Charity offices in September 2019 and thereafter worked off-site with regular liaison with the Charity's senior management team and trustees.

Finally, the Trustees also identified potential conflict of interest in the Founder's directorships of LWL and SKC and had preference that her relationship with both ceased, noting also that her legitimate managerial responsibilities with regard to these companies was - in practice – potentially at variance with her automatic disqualification from management roles within the Charity under the Charities Act 2011.

Financial Review

Review of the charity's financial position at the end of the Period

The Charity has anticipated that the Period would be focused on building an infrastructure to enable its longer- term growth by developing relationships with stakeholders, including donors, benefactors, grant and bid sources. It therefore focused on establishing a solid vehicle to facilitate delivery and implementation of the charity's mission by way of application of funds for investment for skills in training and education programmes, redevelopment of the SKC business to reflect modern retail practices and requirements of the fashion industry, equipping the existing LWL business to provide support for charitable purposes, with regard to education and skills in training projects, with the overarching objective of establishing a viable and sustainable beneficiary programme.

It was identified that these factors were critical to a phased charity launch and to provide basis on which grant and funding consultants could subsequently and in future be retained to enable the Charity to start applying for independent funding and to cease reliance on its sole benefactor, the Chair of the Trustees (the "Chair") who had provided funding to the Charity directly and indirectly both personally and through her wholly owned company, London Bag Factory via debt backed structured financing from Just Cash Flow PLC, pursuant to a facility agreement between London Bag Factory Ltd. and Leather Inside Out dated 12 October 2018 (the "Facility"). Personal Guarantees were also provided to Just Cash Flow PLC in respect of the Facility by the Trustees, the Founder and the Consultant.

From the outset of the Period, commencing six months from the Charity's registration and three months from the opening of its bank account with Metro PLC in July 2018,

it was agreed by the Trustees that significant investment would be required by the Charity to achieve its objectives and that it would very likely run at a loss during the period, noting again, by emphasis, that the Trustees, the Consultant and Founder had executed personal guarantees with the Chair's finance arranger, Just Cash Flow PLC, to accommodate long term compliance with the Charity's mission and delivery of objectives in a financially responsible manner. Based on the scale of its support to the Chair and in light of these personal guarantees, Just Cash Flow PLC also assumed a rigorous and regular monitoring of the Charity by way of stringent borrowing request procedures and regular meetings and communications with the Founder and the majority of the Trustees, noting that the Trustee and Manager was on sick leave for four months within the Period, failed to provide written responses to any communications from the majority of the Trustees, the Founder and JCF and, in any event, resigned shortly before the end of the Period.

It was not expected that there could be any significant repayments of the Charity's loan from London Bag Factory under the Facility during this time; such meaningful repayments were not anticipated until 2022 earliest and during this period, the Charity relied on the ongoing support of the Chair. This assessment was taken on the likely lead time of realising profit from (i) a rebranded SKC, (ii) significant revenue from DFL, (iii) development of a prison law franchise, (iv) bid and grant support for education and skills in training programmes, (v) potential publishing and associated right income from the Founders proposed contract with Robertson Murray, literary agents and (vi) the development of a discrete studio and manufacture centre for leather craft and design, noting here that the Trustees considered LWL was highly unlikely to be able to deliver this function on basis of its management and the hostility of the Consultant towards the Trustees and Founder,

Principle factors which led to the extent of excess of expenditure of income of £309,680 during the Period, over and above pre-projected expenditure on Charity repayments to the Chair (representing pre financing debts incurred by the Consultant totalling £345, 874 *deducted at completion of Financing in October 2018*), property and human resources were factored on expenses including those mainly arising at the commencement of the Period: (i) debts reflected as debtor liability of £307,138 incurred by the Consultant in respect of the Charity's investment in LWL; (ii) legal professional fees incurred in respect of the financing by *Wedlake Bell LLP* and *Forsters LLP* and property advice by *Hodge Jones & Allen LLP* to the Consultant, totalling £140, 943 which became due and payable *following and during* the accounting period 2017-8, noting that Charity financing completed on 8 October 2018. (Note, It is not anticipated by the Charity that these expenses (i) – (ii) could recur and noted further that the Charity's right with regard to recovery from the Consultant are expressly reserved); and (iii) ongoing governance, management and financial control issues arising within LWL and SKC which led to significant outlay of expenditure by the Charity for limited return, including with regard to its support of LWL's lease for the Pratt Street Property which equated to nearly £80,000 per

annum and also with regard to the Consultant's north London based studio warehouse which the Pratt Street Property had been acquired to replace at monthly rental of £980 per month.

An incidental expense that is noted here also regards unauthorised travel costs incurred by the Consultant who relied on taxi services to travel to and from Camden on a daily basis from May 2019 onwards for reasons unclear. These expenses were not itemised to the Charity until after the Period but are nonetheless reflected in the accounts.

Finally, it was identified that the Charity had not been able to make any HMRC applications reflecting of its charitable status nor bids for grants or funds available to charities with the exception of its 80% charitable exemption for council tax provided by Camden Council for 10 Pratt Mews, London NW1 0AD. The trading and incorporation status of SKC was therefore considered priority area for assessment for the forthcoming financial year.

Note, for the Period and for accounting purposes, income from LWL and SKC revenue is not reflected.

Structure, Governance and Management

Type of governing document

- Constitution, CIO

Trustee selection methods

- In selecting individuals for appointment as charity trustees, the Charity trustees must have regard to the skills, knowledge and experience needed for the effective administration of the CIO. Further the Charity trustees must also have demonstrable understanding of the Charity's work with regard to the circumstances of its beneficiaries and any wider benefits to society as a whole.

Reference and Administrative details

Charity Name

- Leather Inside Out

Other name the charity uses

- LIO

Registered charity number

- 1177993

Charity's principal address

- 10 Pratt Mews, London NW1 0AD

Names of the charity trustees who manage the charity

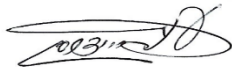
- Nicole Marlene Riedweg (Chair)
- Anat McKenzie
- Pavlos Vrahimis (resigned 23 September 2019)

Declarations

The trustees declare they have approved the trustees' report above.

Signed on behalf of the charity's trustees

Signature



Full Name Anat McKenzie

Position Trustee

Date 29 January 2021