CHARITY COMMISSION
FOR ENGLAND AND WALES

GUIDANCE

Charity finances: trustee essentials

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Contents

1. Introduction

Good management of a charity's finances and other assets enables it to succeed in delivering its charitable aims.

To achieve this, trustees must properly supervise their resources and satisfy themselves that they have:

- realistic funding plans and strategies
- effective management controls and systems
- planned for their charity's assets and resources to be used in the best possible way for their beneficiaries

Getting this right can be very rewarding. It shows the valuable and visible results of a trustee's commitment to their charity, beneficiaries and supporters. The Commission recognises the commitment that this requires of trustees, and the challenges they can face in serving their charities well. Trustees can delegate tasks to suitably qualified staff and/or volunteers but, whatever the arrangements, proper oversight and monitoring are vital.

Charities vary greatly in size, scale and how they operate and so trustees must decide what is reasonable, proportionate and appropriate for their charity. While common legal duties apply to all charities, how trustees interpret good practice will depend on individual circumstances.

As the charity regulator, the Commission expects trustees to take their responsibilities seriously. Trustees are not expected to be perfect - they are expected to do their best to comply with their duties. The Commission recognises that most trustees are volunteers who sometimes make honest mistakes: where they have acted honestly and reasonably, they are generally protected under the law.

1.1 'Must' and 'should': what the Commission means

In this guidance:

- 'must' means something is a legal or regulatory requirement or duty that trustees must comply with
- 'should' means something is good practice that the Commission expects trustees to follow and apply to their charity

Following the good practice specified in this guidance will help you to run your charity effectively, avoid difficulties and comply with your legal duties. Charities vary in terms of their size and activities. Consider and decide how best to apply this good practice to your charity's circumstances. The Commission expects you to be able to explain and justify your approach, particularly if you decide not to follow good practice in this guidance.

In some cases you will be unable to comply with your legal duties if you don't follow the good practice. For example:

Your legal duty	It's vital that you
Act in your charity's best interests	Deal with conflicts of interest
Manage your charity's resources responsibly	Implement appropriate financial controls Manage risks
Act with reasonable care and skill	Take appropriate advice when you need to, for example when buying or selling land, or investing (in some cases this is a legal requirement)

Trustees who act in breach of their legal duties can be held responsible for consequences that flow from such a breach and for any loss the charity incurs as a result. When the Commission looks into cases of potential breach of trust or duty or other misconduct or mismanagement, it may take account of evidence that trustees have exposed the charity, its assets or its beneficiaries to harm or undue risk by not following good practice.

1.2 About this guidance

This guidance introduces trustees of charities in England and Wales to the basics of the most common areas of their financial responsibility when running a charity. Charities operate in many different ways so trustees should consider what applies to their own charity - for example does it make grants, does it deliver services funded by grant or contract, does it depend on public fundraising?

It is designed to help trustees ensure that they comply with the duties - covered in more detail in the Commission's guidance **'The essential trustee'** - that are most relevant to financial management. These are to:

- act in the interests of their charity and its beneficiaries and its charitable aims
- manage your charities resources responsibly
- act with reasonable care and skill
- ensure their charity is accountable

Each section covers a specific aspect of financial and resource management and can be used as a checklist to inform discussion, identify risk areas and build plans. It provides links to further guidance which helps trustees when they need more detailed understanding. Some of the bullet points start with 'must' when they describe a legal requirement, all other bullet points should be treated as 'should'.

The guidance covers both everyday financial management matters as well as broader resource issues such as staff and volunteers. It does not however cover accounting issues directly - see the Commission's **basic accounting requirements** guidance which is for charities of all sizes and structures.

2. Making the most of your finances

2.1 Financial management

A charity can only succeed in meeting its aims if it manages its money properly. This means it has to plan and monitor its income and outgoings so that it can meet its short, medium and long term aims. Within a charity's operational or strategic plan should be the policies, strategies and actions needed to do this. Careful money management will also protect a charity's funds from misuse.

This means the trustees:

- **agree and regularly review** their plans for achieving the charity's aims and the finances needed to support them
- agree where funding will come from, and what happens if it stops - they should plan for how to reduce or avoid this type of risk by, for example, having several sources of funding and having a reserves policy
- plan for **an orderly wind up if the charity can no longer function effectively** - this means that they will be able to recognise when this point has been reached - plans should cover the future welfare of their beneficiaries (particularly those who are vulnerable), their staff and the proper disposal of the charity's assets
- **must know which funds are restricted** - these funds must only be used in the way the donor specified
- agree, establish and review financial policies and procedures as regularly as appropriate - staff and volunteers (where used) should be involved so that everybody understands the controls in place
- set or agree an annual budget which identifies the charity's aims and objectives and how to achieve them - the budget should include the cost of activities and how they will be resourced
- monitor financial performance by comparing on a regular basis actual income and expenditure against the annual budget; their agenda should include project reports/financial reviews as a standing item
- budget for the full costs of providing any service - they should do this when considering what to charge for services (if they are going to), applying for grants or bidding for contracts for public service delivery
- must prepare **annual accounts and a trustees' annual report** in accordance with the requirements and standards that apply to the size and legal structure of their charity

Find out more:

Managing a charity's finances: planning, managing difficulties and insolvency (CC12)

2.2 Identifying and managing risk

Charities should regularly assess and review the risks they face in all areas of their work and plan for the management of those risks. A robust risk management process will enable the charity to look at how its assets and resources can be protected and put to best use. Some charities will have a legal obligation to report on their risk management processes in their annual reports.

This means the trustees:

- create and review a risk management policy that covers all aspects of the running of the charity - this should set out the processes that the charity will use to identify the risks and how it will manage them
- must make a risk management statement in their annual report in accordance with the regulations if the charity is above the audit threshold
- make a risk management statement in their annual report as a matter of good practice if they are trustees of a smaller charity that falls below the audit threshold
- set out the different roles of trustees, staff and volunteers in risk assessment and management - trustees should set the policies and oversee the results, but can delegate the process of risk management to staff or professional advisers
- establish a framework to help identify day-to-day risks - this should set out what decisions can be dealt with or accepted by others, but still need to be referred to trustees
- review all risks identified and how they are to be managed - how often will depend on the charity's working environment, and any changes in the financial climate and legislation
- establish a disaster recovery plan to enable the charity to resume normal (or near normal as possible) service to its beneficiaries if a serious incident prevents it from carrying out its usual activities

Find out more:

Charities and risk management (CC26)

2.3 Sound internal financial controls

All trustees have a duty to protect their charity's assets and resources and to make sure they are only used to further the charity's aims. They should have robust internal financial controls in place to protect funds from misuse. This will show potential donors and beneficiaries that the charity manages its property efficiently.

This means the trustees:

- look carefully at areas of high risk such as controls over payroll systems and ordering of goods and services - areas of high risk will vary and will depend on the charity's activities, structure and risk assessment
- introduce policies and processes to protect their charity's assets and resources - all staff and volunteers should know their roles and duties
- base internal control systems on the charity's organisational plan - this should clearly show areas of responsibility for individuals and groups, and lines of authority and reporting
- ensure that no trustee or employee signs cheques or authorises payments including re-imbursements, to themselves

- recognise that robust financial controls will help to protect them against potential personal liability in the event of any loss to the charity through misuse of its funds
- carry out appropriate checks when making grants to or allowing the use of their charity's property by another organisation; trustees need to be sure (as far as is possible) that these assets and resources will be used only to carry out the charity's aims
- ensure any delegation of checks and controls to staff or volunteers is clearly documented and understood by all parties - they should receive regular written reports on the use of any delegated powers
- consider using new technology to simplify record keeping, accounting and transaction processes
- have access to independent professional advice - the communication between the charity's trustees, accountant and independent examiner/auditor should be more than an annual exchange of records and information

Find out more:

Internal financial controls for charities (CC8)

The essential trustee: what you need to know, what you need to do (CC3)

Protecting charities from harm: compliance toolkit

How to report a serious incident in your charity

2.4 Charity reserves

A charity that wants to provide reliable and consistent services to its beneficiaries needs to be resilient. This means that it needs to be able to meet unexpected expenses and take advantage of change and opportunities for development when they arise. One way of doing this is to set aside income, when it can afford it, as a reserve earmarked for particular uses rather than used immediately for the charity's aims.

Holding excessive reserves can limit the amount spent on charitable activities. On the other hand, inadequate or no reserves could put the charity's solvency, future development or activities at risk. So it is important to properly assess what will be best for beneficiaries in the short and longer term.

This means the trustees:

- consider whether their charity needs to keep reserves - in some cases if a charity is no longer viable it should wind up and pass its funds to another with similar aims - the trustees' primary consideration should be the wellbeing of the beneficiaries it was set up to help
- must have a reserves policy, which explains the levels of reserves to be kept and how they can be used - it will also say if the charity has decided not to keep reserves and why
- review their reserves policy on a regular basis to take into account changing financial circumstances and new operating and financial conditions
- must comply with **the annual reporting requirements** to set out the charity's reserves policy - the purpose behind making the statement is to show the level of reserves the charity holds and to explain why it needs to retain them at that level - the statement must also say if the trustees have decided not to keep reserves
- identify which of the charity's funds have restrictions on their use - reserves are funds that are freely available to spend and some funds may have restrictions on their use set by their donors

- consider whether and how reserve funds should be invested - for example if they are/could be needed at short notice they should be invested in a way that can be readily realised as cash as required
- plan for future development and sustainability when looking at levels of reserves - designating funds for use on particular future projects can be a way of setting aside and building up funds separated from the charity's general reserves

Find out more:

Charity reserves: building resilience (CC19)

2.5 Managing financial difficulties and insolvency

Charities undertake a wide variety of work which can be funded in many different ways, and it can be affected by any changes in the economic climate. This means that charities may at some point face financial uncertainty. Section 1 looked at what trustees should be doing to prevent financial problems arising. This section deals with when a charity does face financial difficulties, and aims to help trustees recognise when this point has been reached and what actions they should take to manage any risk to beneficiaries.

This means the trustees:

- have the appropriate skills and time, to ensure the proper running of the charity and lead or manage it through difficulties
- ensure that they regularly receive and consider robust and up-to-date financial management information to enable them to recognise at an early stage when the charity is facing financial difficulties
- find out which charity funds are restricted in their use by their donors and which can be used for any of its aims - this is crucial to the proper understanding of the charity's overall financial position
- take prompt action when they think insolvency is a possibility - professional advice in writing should be taken at an early stage because any corrective action needs to be carefully planned
- consider changing, cutting or restricting the charity's activities, reviewing funding sources and commitments or refinancing
- think about **merging or collaborating with another charity**
- have an understanding of (and if necessary take advice about) **insolvency law and and how it applies** to charitable companies, and what voluntary options there are for other types of charity
- recognise that once the charity has reached the stage of liquidation or winding up their primary duty is to pay the charity's debts
- must **tell the Commission if the charity closes** or is no longer active so that it can be removed from the register of charities (legal requirement)

Find out more:

Managing a charity's finances: planning, managing difficulties and insolvency (CC12)

3. Income generation

3.1 Financial investment

Charities make investments either to receive a financial return to spend on their aims, or as a way of directly furthering those aims. Some ways of investing will do both. Trustees must make investments in the best interests of the charity. Charities can also receive inward financial investment from grant makers and social investors.

This means the trustees:

- have agreed the purpose of the investment assets, the level of risk and the investment time horizon that is appropriate for their charity and invest accordingly
- must comply with any restrictions or additions to their general powers of investment that are contained in their charity's governing document
- must act to certain standards **(their duty of care)** when investing
- must consider the **suitability of any investment for their charity, the need for diversification** before making any investment decision, alongside the ongoing need for periodic reviews of their charity's investments
- establish a clearly recorded and regularly reviewed investment policy - the policy should include:
  - a description of the overall investment objectives including return expectations and income targets
  - the level of investment risk the trustees are prepared to accept to achieve their investment objectives
  - liquidity requirements
  - anticipated cash flow needs from the investments
  - the investment time horizon
  - the charity's position on responsible or ethical investment
- must comply with their duty to act in the interests of their charity when investing, including when making a programme related **or social investment** - they must ensure that the investment directly furthers the charity's aims and any private benefit is incidental
- consider whether it would be in the interests of the charity to adopt a responsible or ethical approach to investment - some types of investment could directly conflict with the aims of the charity, might alienate beneficiaries or supporters or might not reflect its values and ethos
- consider whether to delegate the management of the charity's investments to a specialist - this might mean investing in a collective investment scheme such as a unit trust, **a common investment fund** or a charity authorised investment fund, or appointing a professional investment manager
- consider whether if their charity applies for any form of social investment it can generate enough surpluses to repay any debt it takes on

Find out more:

Charities and investment matters: a guide for trustees (CC14)

3.2 Charities and fundraising

Trustees should have systems in place to ensure that their charity complies with fundraising law and follows good practice in all aspects of fundraising. This includes fundraising methods, the costs involved, financial risk and how to safeguard and use funds raised. The trustees should also consider the impact its fundraising methods might have on public opinion and its own reputation.

The trustee body is legally responsible for a charity's fundraising, but they can delegate the management of day to day activities to paid staff and others. Where this happens, the trustees should have systems in place to:

- hold people to account for how they carry out their role
- ensure that they have access to the right information and advice, to the appropriate level of detail, and in the best format
- have the ability and willingness to critically interpret and, where necessary, question the information they receive
- be assured that their charity's fundraising is compliant with the fundraising approach that they have set, the standards required by their trustee duties, and wider law and best practice

Trustees should also ensure that:

- they have proper control of any funds raised and that they are used for the purposes they were raised for
- appeals for special purposes are separately managed and accounted for from the charity's general funds
- the appropriate agreements are in place with professional fundraisers and commercial partners, if using others to fundraise on their charity's behalf
- they are familiar with, and follow, the standards of fundraising practice set out by **the Fundraising Regulator**
- proposed appeals are well planned, in line with the charity's aims and values and take into account any financial or reputational risks connected with an appeal - a significant appeal may require a business plan, a budget and professional advice
- an open and accessible complaints procedure is established - this will raise public confidence in their charity and help to identify improper or fraudulent fundraising activity

Find out more:

Charity fundraising: a guide to trustee duties (CC20)

Disaster appeals: Charity Commission guidance on starting, running and supporting charitable disaster appeals (CC40)

3.3 Charities and trading

Charities can trade to fund their activities. It is important for charities to be aware of **what types of trading activity they can carry out themselves and when they will need to trade through a trading subsidiary**. They will need to be satisfied that their trading activities do not put charitable assets at risk and are organised in a tax efficient way.

This means the trustees:

- take professional advice at an early stage, particularly on **tax** including **VAT** issues
- are clear about whether the charity's proposed trading activity directly furthers its aims (primary purpose trading), or is a means of generally raising funds for the charity (non-primary purpose trading) - this is important because it may have tax implications for the charity
- establish whether any proposed fundraising activities such as holding events or working with commercial participators fall within the category of trading - the Commission recommends that charities take appropriate advice before they proceed
- assess the risk to their charity's assets when considering a non-primary purpose trade - for example, losses from a trading activity might put the charity's general funds or assets at risk and affect its ability to achieve its aims
- consider whether the trade should be carried out by a trading subsidiary if there are significant risks to a charity's assets - doing this can be tax efficient and could protect the charity's funds from trading losses - profits from the trading subsidiary will be passed back to the parent charity
- ensure that the interests of the charity are the primary concern in all decisions made about a trading subsidiary - the interests of the subsidiary, its directors, creditors or employees will take second place to those of the charity - any conflicts of interest should be identified and managed
- plan to protect the charity's assets as far as possible when taking on and managing service delivery contacts - for example, failure to deliver results might mean losses for charity - does/should the charity's reserves policy cover this?

Find out more:

Trustees trading and tax: how charities may lawfully trade (CC35)

Conflicts of interest: a guide for charity trustees (CC29)

4. Using other resources

4.1 Staff and volunteers

A charity's staff and volunteers are a vital part of its assets and resources and are essential to the effective delivery of a charity's services to beneficiaries. It is very important that charities as employers are aware of their legal obligations and ensure that they have developed and put in place effective staff and volunteer management policies.

This means the trustees:

- **understand their legal obligations as an employer** and keep up-to-date with any changes in legislation - it is important that the charity knows where to look for advice and information on this issue and takes professional advice where necessary
- make the best use of staff by regularly reviewing what skills and experience are needed, what recruitment methods it uses and its training and working conditions - look at flexible working, equality and diversity issues and carry out performance reviews
- regularly review staffing levels to ensure that they fit with the charity's strategic planning, and ensure that staff resources are being used to effectively meet the charity's business objectives and charitable aims
- understand their **legal duties in connection with pension provision for staff** and are aware of current requirements - pension arrangements should be in the best interests of the charity, and informed by appropriate professional advice
- identify and plan for the management of the risks and liabilities that are attached to any pension scheme the charity might have - they should know where to look for support and advice on pension matters and take proper advice during the planning process
- report on their charity's pension liabilities and how they are being managed in their annual accounts and report
- regularly review the charity's policies on the **support, training and use of volunteers** - it needs to be aware of the legal position of volunteers - areas of legislation that might apply include criminal record checks, data protection and health and safety
- know what **expenses volunteers can have reimbursed from the charity's funds** - there should be a written policy procedure for claiming and approving expenses

Find out more:

Charity reserves and defined benefit pension schemes

How to report a serious incident in your charity

Staff and volunteers

4.2 Charities and insurance

As part of their general duty to protect and safeguard their charity's assets and resources, trustees should consider ways of protecting their charity's property from loss or damage and to manage the risk of a third party making claims against the charity's funds. Insurance may be an appropriate way for the trustees to discharge this duty and manage these risks.

This means the trustees:

- **find out when to insure their charity**, and take out the appropriate cover - this includes **employer's liability insurance** (if a charity is an employer), **motor insurance** against third party injury and property damage if a charity owns or operates motor vehicles
- are aware of the power in the Trustee Act which enables trustees to insure any property which is owned by their charity against the risk of loss or damage due to any event and pay the premiums out of the charity's funds
- are aware of any requirement in the charity's governing document for its trustees to buy certain types of insurance cover, apart from those types that are required by law
- identify risks to the charity - this will enable the charity to identify which risks can either be accepted, managed, stopped or passed to an insurer (ie buying an insurance policy)
- treat volunteers in a similar way to employees for insurance purposes and **make sure your charity's insurance covers your volunteers** - look at how the insurer defines the term 'volunteer' and keep proper records of the volunteers working for the charity that fall within that definition
- consider independent professional advice from a **reputable broker** that has an understanding of charities' insurance needs
- consider the advantages of tailor-made charity insurance packages - for example, for village halls, small community groups, certain types of events and other fundraising activities

Find out more:

Charities and insurance (CC49)

4.3 Buying and selling land

Charity trustees must act in accordance with their legal duties when buying or selling land. A charity can use land to carry out the charity's aims or can hold it as an investment. A charity should also make sure that it safeguards its land.

This means the trustees:

- must comply with the powers the charity has to buy, sell, lease or dispose of its land, either to use for its aims or as an investment - the powers it has will vary according to its legal structure and sometimes by provisions in the charity's governing document
- must take the appropriate professional advice when considering buying or selling land
- must comply with **their duty of care** when investing in land
- must comply with the requirements of the law when disposing of any of its land - the law requires that these transactions are properly managed in the charity's interests

- must obtain the commission's consent where a disposal of land is to a connected person - connected persons include trustees and their close relatives, the donor of the land and their close relatives, a charity's trading subsidiary and employees and officers of the charity
- **read the Commission's guidance if they need consent**, take any appropriate advice and be able to show why the transaction is in the best interests of the charity
- keep a full record of the land the charity owns - does any of the land need to be registered with the Land Registry? would it be more convenient for the charity to **transfer land to the Official Custodian for Charities**?
- monitor the condition of the charity's land and how it is being used - for example, they should hold regular rent reviews of investment land and have a regular cyclical maintenance programme - the trustees will need to take into account any special requirements for heritage assets
- **seek discretionary rate relief from the local authority**, if appropriate

Find out more:

Sales, leases, transfers or mortgages: what trustees need to know about disposing of charity land (CC28)

Acquiring land (CC33)

4.4 Trustee expenses and payments

Charity trustees normally act in a voluntary capacity unless their charity's governing document says otherwise. A charity can reimburse its trustees for their legitimate expenses. The Charities Act also sets out certain circumstances in which a charity can pay its trustees for the provision of goods and services.

This means the trustees:

- must be aware of any provisions in the charity's governing document that either authorise or prohibit payments to trustees
- must ensure that the **payment of a trustee to be a trustee or a paid member of staff** (where this in the charity's interests) will need a specific authority either from its governing document, the Commission or, more rarely, from the courts
- know that trustees are entitled to have any legitimate expenses they incur on the charity's behalf paid from its funds - the charity should have a written policy in place which sets out what claims are covered and the procedures for claiming and approving expenses for all staff and trustees
- know how and in what circumstances they can use the powers in the Charities Act to pay trustees for the provision of goods and services - the charity's governing document may affect the provisions of the Charities Act
- if they need the **Commission's consent**, should read the Commission's guidance, take any appropriate advice and be able to show why the proposal is in the best interests of their charity
- can show how the performance of the individuals concerned will be monitored and assessed
- are open and transparent about any decision to pay trustees and be prepared to justify it if publicly challenged

- disclose any payments made to trustees in the charity's accounts in accordance with Charity SORP guidelines - this is a legal requirement for companies and larger charities but will enable charities of all sizes to be open and transparent (legal requirement)
- have clearly defined procedures for identifying and managing conflicts of interest that may arise when considering the payment of a trustee (or a person connected to that trustee)
- review regularly the performance of each trustee - this is particularly important where a trustee is receiving a payment from the charity

Find out more:

Trustee expenses and payments (CC11)

4.5 Technical terms used in this guidance

The Charities Act means the Charities Act 2011.

Trustee Act means the Trustee Act 2000.

A charity's activities are anything it does using the assets or resources it owns or that are under its control. This includes all of its work and services.

Aims and charitable aims mean the aims which the charity is set up to achieve. The aims are usually expressed in a charity's governing document.

Annual report means the trustees' annual report prepared under the requirements in the Charities Act.

Beneficiary or beneficiaries means a person or group of people eligible to benefit from a charity's work. The beneficiary group of a charity will be defined in the charity's governing document. Beneficiaries may sometimes be called clients or service users.

Charitable company means a charity which is a company formed and registered under the Companies Acts, or to which the provisions of the Companies Act 2006 apply.

The general power of investment is the power of investment which is given to trustees by section 3 of the Trustee Act including the power to invest in land in section 8 of the Trustee Act.

Governing document (GD) means a legal document setting out a charity's aims and, usually, how it is administered. It may be a trust deed, constitution, memorandum and articles of association, conveyance, will, Royal Charter, scheme of the Charity Commission or other formal document.

Restricted funds are funds subject to specific trusts that fall within the wider purposes of the charity. Restricted funds may be restricted income funds, which may be spent at the discretion of the trustees in furtherance of some particular aspect of the purposes of the charity, or they may be endowment funds where the assets must be invested or retained for actual use rather than spent.

Reserves are the resources that a charity has, or can make available, to spend on any or all of its purposes after it has met its commitments and made provision for its other planned expenditure.

The regulations are the Charities (Accounts and reports) Regulations 2008 (SI 2008 No. 629) which set out the required form and content of the trustees' annual report and the scrutiny and accounting arrangements for charities.

Risk is used in this guidance to describe the uncertainty surrounding events and their outcomes that may have a significant impact, either enhancing or inhibiting any area of a charity's operations.

SORP means Accounting and reporting by charities - Statement of Recommended Practice 2005. SORP sets out recommended practice for charities in the preparation of annual reports and accounts, the key elements of which are underpinned by the 2008 regulations.

Trustee means a charity trustee. Charity trustees are the people who are responsible for the general control of the management of the administration of the charity. In a charity's governing document, they may be collectively called trustees, the board, managing trustees, the management committee, governors or directors, or they may be referred to by some other title.