FUNDING
& FINANCE

Managing charity assets and resources: an overview for trustees

The Charity Commission

The Charity Commission is the independent regulator of charities in England and Wales. Its aim is to provide the best possible regulation of charities in England and Wales in order to increase charities' effectiveness and public confidence and trust. Most charities must register with the Commission, although some special types of charity do not have to register. There are over 160,000 registered charities in England and Wales. In Scotland the framework is different, and the Commission does not regulate Scottish charities.

The Commission provides a wide range of advice and guidance to charities and their trustees, and can often help with problems. Registered charities with an annual income over £10,000 must provide annual information to the Commission. The Commission has wide powers to intervene in the affairs of a charity where things have gone wrong.

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A Introduction

A1 What is this guidance for?

This guidance is a general introduction to the management of a charity's assets and resources. It is a summary of the key points to think about when looking at the effective management of your charity's assets and resources. You could use it as a checklist at meetings where the trustees are discussing or reviewing the issues covered here. You could also use it to give an idea of what is likely to be involved if your charity wants to expand into new areas such as the ownership of property or setting aside reserves for the future.

We use the term 'assets and resources' here to mean all the property belonging to your charity. This includes investments, cash, land, buildings and vehicles, but it also covers the charity's staff, volunteers, goodwill and reputation.

This guidance is aimed at all charities but what will apply to your charity will depend on its size, its structure and what it does. Any legal requirements are identified by the **L** symbol – the other points are what we recommend as good practice.

If you need to know more about any of the topics covered here, links to the relevant detailed guidance are given in each section. A full list of our detailed guidance is provided in section N.

A2 'Must' and 'should – what we mean

In our guidance, where we use 'must' we mean it is a specific legal or regulatory requirement affecting trustees or a charity. Trustees must comply with these requirements. To help you easily identify legal or regulatory requirements we have used the **L** symbol next to the relevant bullet points.

We use 'should' for items we regard as minimum good practice, but where there is no specific legal requirement. Trustees should follow the good practice guidance unless there is a good reason not to.

A3 Terms used in this publication

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 Commission or other formal document.

Programme related investment (PRI), sometimes referred to as social investment, is an investment made by a charity wholly to further its aims and which involves the potential return of capital within an established period. Different rules apply for programme related investments and financial investments.

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.

Riskis 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. SORP and a range of related guidance are available on our website.

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.

B 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. A charity's operational or strategic plan will set out what policies, strategies and actions will be needed to do this. Careful money management will also protect a charity's funds from misuse.

This means the trustees:

- Plan strategically. This means identifying resource needs and how to meet them, and potential risks and contingency requirements. Short, medium and long term planning should show where funds will come from and when they will be needed.
- **L** Must know which funds they hold have restrictions on their use. These funds can only be used in the way specified.
- Agree, establish and review financial policies and procedures. Staff and volunteers should be involved in drawing up policies and procedures so that everybody understands how the charity's finances are managed, what internal controls are in place and what roles and responsibilities they have.
- Set an annual budget which identifies the charity's aims and objectives and what it needs to do to achieve them. The budget will also set out, as far as possible, how the activities will be resourced and what the cost will be.
- Ensure that the charity measures financial performance to show the effectiveness of its overall financial management. This might involve using management accounts on a regular basis to compare actual income and expenditure against the annual budget.
- Identify and fully cost **all** the resources that are needed for the provision of its services. A charity should do this when considering what to charge for its services, applying for grants or bidding for contracts for public service delivery.
- Are aware of what income streams are available now, and what are planned or available for the future. Charities should consider all appropriate opportunities to diversify their funding.
- **L** Prepare annual accounts and a trustees' annual report in accordance with SORP. What applies will depend on the size and legal structure of the charity in question.

C Investing charitable funds

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.

This means the trustees:

- **L** Must be clear from the outset about whether they are seeking the best financial return, furthering the charity's aims (programme related investment) or doing some of both. Different rules apply depending on what the charity wants to do.
- Establish a clearly recorded and regularly reviewed investment policy. The policy should include such issues as how present and future activities need to be resourced, the level of investment risk they are prepared to accept, and the charity's position on ethical investment.
- **L** Comply with the relevant powers for standard investments. Trustees have a general power of investment. They must also be aware of any restrictions or additions to their powers of investment that might be contained in their charity's governing document.
- **L** Act to certain standards (duty of care) when using a power of investment. This duty of care requires them to exercise such care and skill as is reasonable in the circumstances.
- **L** Consider the suitability of any investment for their charity, the need for diversification and the need for a periodic review. Before making any investment decision and when reviewing their investments, they must obtain and consider proper advice.
- Consider whether it would be in the interests of the charity to adopt an ethical approach. They might want to avoid investments that conflict in a practical way with the aims of the charity or that might alienate donors or beneficiaries, or they might want to make investments that 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 or a common investment fund, or appointing a professional investment manager.
- **L** Comply with their duties to further their charity's aims in the best way for the charity when making a programme related investment. They must ensure that the investment directly furthers the charity's aims, any private benefit is incidental and there is a way for the charity to end the investment.

For further details see *Charities and Investment Matters: A guide for trustees* (CC14)

D 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:

- Draw up and put in place a risk management policy. The policy should set out the procedures and processes that the charity will use to identify the risks that it faces in all areas of its operations and how it will manage them.
- Recognise the importance of risk management in all aspects of the charity's governance and management. Understanding the risks the charity faces (including those to future funding streams) is at the heart of its operational viability and planning.
- Understand the role of the trustees, as well as staff and volunteers, in risk identification and management. In most charities, the trustees will set the parameters of the process and review and consider the results, delegating the actual process of risk management to staff or professional advisors.
- Establish a risk framework to help them decide what sorts of risk can be accepted or dealt with on a day-to-day basis. It will also set out what decisions need to be referred to them.
- Should regularly review all risks identified and how they are to be managed. How often to do this will depend on the environment the charity is working in. Changes in the financial climate and also changes in legislation will be important factors.
- **L** Make a risk management statement in their trustees' annual report in accordance with the Regulations. This applies 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.
- 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.

For further details see *Charities and risk management: A guide for trustees* (CC26)

E 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 and to show potential donors and beneficiaries that the charity manages its property efficiently.

This means the trustees:

- Establish and put in place policies, guidelines and processes to protect their charity's assets and resources. They should make sure that these are understood across the charity, and that all staff and volunteers 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.
- 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 or allowing the use of their charity's property. The checks will need to satisfy the trustees (as far as is possible) that the charity's assets and resources will be used for the purposes given.
- Ensure that any delegation of checks and controls to staff or volunteers is clearly documented and understood by all parties. They should make sure that they receive regular and fully documented report-backs to the trustees on the use of any delegated powers.
- Look carefully and critically at the areas of highest risk – this will vary and will depend on the charity's risk assessment. Examples might be controls over payroll systems, ordering of goods and services and ensuring that financial information is reliable.
- Consider using new technology to simplify record keeping and transaction processes. This means that existing checks and controls will need to be adapted to meet any changes and updates.
- Have access to independent professional advice. The communication between the charity's trustees, accountant and independent examiner/auditor ought, where possible, to be more than an annual exchange of records and information.

For further details see *Internal financial controls for charities* (CC8), *Protecting charities from harm* and *Reporting serious incidents: Guidance for trustees*

F Charity reserves

A charity should provide reliable and consistent services to its beneficiaries beyond the immediate future. It needs to be able to meet unexpected expenses, absorb setbacks 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.

This means the trustees:

- Identify which of the charity's funds have restrictions on their use – reserves are funds that are freely available to spend.
- Develop and implement a policy setting out why reserves are needed (rather than using income immediately for the charity's aims). It will indicate the levels of reserves to be kept and in what circumstances they can be used.
- **L** Comply with the annual reporting requirements in the Regulations 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.
- Review their reserves policy on a regular basis to take into account changing financial circumstances and new operating conditions. Holding excessive reserves can unnecessarily limit the amount spent on charitable activities and inadequate reserves can put the charity's solvency and future development and activities at risk.
- Consider whether and how reserve funds should be invested. Reserves may be needed in the short to medium term and so they should be invested in a way that can be readily realised as cash when needed.
- 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 that will distinguish them from the charity's general reserves.

For further details see *Charities and reserves* (CC19)

G Charities and fundraising

A charity must comply with the law relating to fundraising and should follow good practice in all aspects of fundraising. These aspects include fundraising methods, the costs involved, financial risk and how to safeguard and use funds raised. The charity should also consider the impact its fundraising methods will or might have on public opinion and its own reputation.

This means the trustees:

- **L** Recognise that some areas of fundraising are subject to specific regulation and ensures compliance with those regulations. Fundraising may also be subject to other regulation besides charity law such as that relating to gaming, taxation, insurance, child protection and data protection.
- **L** Ensure that they have proper control of any funds raised and that they are used for the purposes they were raised for.
- **L** Ensure that appeals for special purposes are separately managed and accounted for from the charity's general funds.
- **L** Ensure that, where they have given permission to others to fundraise on behalf of the charity, the appropriate agreements are in place with professional fundraisers and commercial partners.
- Familiarise themselves with and follow the standards of fundraising practice as set out by the Institute of Fundraising.
- Ensure that a proposed appeal is well planned, is in line with the charity's aims and values and takes into account any financial or reputational risks connected with the appeal. A significant appeal may require a business plan, a budget and, possibly, professional advice.
- Establish an open and accessible complaints procedure which will not only raise public confidence in their charity but also help to identify improper or fraudulent fundraising activity.

For further details see *Charities and fundraising* (CC20)

H 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 that they ensure that they have developed and put in place effective staff and volunteer management policies.

This means the trustees:

- Ensure that they are aware of the charity's 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. This will mean looking at flexible working, equality and diversity issues and carrying 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.
- Know the charity's legal duties in connection with pension provision for staff and are aware of what the current requirements are and new requirements from 2012. Trustees should ensure that the charity's pension arrangements based on what is in the best interests of the charity 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.
- 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.
- Are aware of what expenses volunteers are entitled to have reimbursed from the charity's 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 further details see *Defined benefit pension schemes* and *Reporting serious incidents: Guidance for trustees*

I Charities and insurance

Charity trustees have a basic duty to protect the charity's assets and resources 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. The law requires some types of insurance.

This means the trustees:

- **L** Ensure that the charity takes out any insurance cover which is compulsory for the activities it carries out. This would include employer's liability insurance if a charity is an employer, and motor insurance against third party injury and property damage if a charity owns or operates motor vehicles.
- **L** 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 and plan for the management of risk. This will enable the charity to identify which risks can either be accepted, managed, stopped or passed to an insurer.
- Treat volunteers in a similar way to employees for insurance purposes and ensure that the usual types of insurance that the charity might buy appropriately cover them. This means clarifying how the insurer defines the term 'volunteer' and keeping proper records of the volunteers working for the charity that fall within that definition.
- Consider independent professional advice about the charity's insurance needs where appropriate. This would normally be from a broker that has an understanding of charities' insurance needs and can place business with a range of insurance companies.
- Look at and consider the advantages of insurance packages that have been specially developed for particular types of charity, such as village halls or small community groups. Such packages are also available for certain types of events and other fundraising activities.

For further details see *Charities and Insurance* (CC49)

J Managing financial difficulties and insolvency

Charities undertake a wide variety of work, have different funding sources and may be affected by any changes in the economic climate. This means that many charities will at some point face financial uncertainty. A charity should have robust procedures in place for the planning, management and review of its finances. If a charity finds itself in financial difficulties, the trustees should take prompt action to reduce the risk of becoming insolvent.

This means the trustees:

- Have the appropriate skills and abilities, as well as enough time, to ensure the proper running of the charity.
- Have a long-term strategic plan in place for the achievement of the charity's aims. This should cover budgeting, planned activities and how they are to be financed, risks, potential liabilities, reserves and proper governance.
- Have regular trustee meetings to consider financial reports, any updates and the overall financial situation of the charity. How regular these meetings need to be will depend on the financial health of the charity and the economic environment in which it is operating.
- Know which of the charity's funds are restricted in their use 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 the appropriate action, if possible, when they identify insolvency as a possibility. Professional advice should be taken at an early stage (in writing) because any corrective action needs to be carefully planned.
- Know about insolvency law and its rescue mechanisms if the charity is a charitable company, and the voluntary options available if it is a trust or unincorporated association.
- Consider restructuring or changing the charity's activities – this would be part of any normal budgetary and strategic planning, but will become vital when facing financial uncertainty. It means looking at alternative sources of funding, reviewing commitments, refinancing, cutting or curtailing planned expenditure, stopping some of the charity's activities or considering merging with another charity.
- **L** Must inform us if the charity winds up or ceases to operate so that it can be removed from the Register of Charities.

For further details see *Managing financial difficulties and insolvency in charities* (CC12)

K 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:

- **L** Know and comply with the powers the charity has to buy 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.
- Take the appropriate professional advice when considering buying or selling land.
- **L** Comply with the statutory duty of care set out in the Trustee Act when investing in land. The trustees must comply with this duty of care whether or not they are using the powers of investment in the Act.
- **L** 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.
- **L** Must obtain our prior authority 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.
- Should comply with the powers the charity has to sell, lease or transfer (or otherwise dispose of) or change the use of its land. In some cases land may be held on trusts that require our prior consent to its disposal or change in use.
- 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 vest the title to any land it owns in the name of 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.
- If appropriate, seek discretionary rating relief for the charity's land from the local authority.

For further details see *Sales, leases, transfers or mortgages: What trustees need to know about disposing of charity land* (CC28) and *Acquiring land* (CC33)

L 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:

- Are aware of any provisions in the charity's governing document that either authorise or prohibit payments to trustees.
- Recognise that the payment of a trustee for serving as a trustee (where this in the charity's interests) will need a specific authority either from its governing document, the Charity 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.
- Are open and transparent about any decision to pay trustees and be prepared to justify it if publicly challenged.
- **L** 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.
- 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.

For further details see *Trustee expenses and payments* (CC11)

M 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 and 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, although charities may trade when carrying out their aims, non-primary purpose trading may be taxable if it exceeds the small-scale exemption.
- Establish whether any proposed fund-raising activities such as holding events or working with commercial participators fall within the category of trading. We recommend that charities take appropriate advice before they proceed.
- Assess the risk to their charity's assets when proposing a non-primary purpose trade. For example, if the costs of carrying out the trading activity are more than any profits made, the charity's funds or assets may be 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 or it wants to avoid paying unnecessary tax. A trading subsidiary is a company limited by shares which are owned by the charity. The charity will fund the trading subsidiary, usually by way of a loan or by buying shares in the subsidiary (complying with the legal requirements described in section C). All profits made will be passed back to the 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.

For further details see *Trustees, tax and trading* (CC35)

N Detailed guidance available from the Charity Commission

Our detailed guidance is listed below. Links to the relevant pieces of guidance are also given in sections B-M.

- *Internal financial controls for charities* (CC8)
- *Trustee expenses and payments* (CC11)
- *Managing financial difficulties and insolvency in charities* (CC12)
- Charities and investment matters: A guide for trustees (CC14)
- *Charity and reserves* (CC19)
- *Charities and fundraising* (CC20)
- *Charities and risk management: A guide for trustees* (CC26)
- *Sales, leases, transfers or mortgages: What trustees need to know about disposing of charity land* (CC28)
- *Trustees, trading and tax* (CC35)
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- *Charities and Insurance* (CC49)
- *Protecting charities from harm (web guidance)*
- *Defined benefit pension schemes (web guidance)*
- *Reporting serious incidents: Guidance for trustees (web guidance)*

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