



# Are Charities Making use of Effective Resources?

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In the guidance provided by the Charity Commission to help new and existing trustees understand their role and what is required of them (CC3 The Essential Trustee), initial emphasis is placed on the prudent use of resources. Trustees have a stewardship role which means ensuring that resources are used for charitable objectives and not put at risk unnecessarily. However, trustees are not just responsible for the safekeeping of resources, there is also a duty to use them effectively.

This article looks at the particular areas of investment, banking and property.

## Investment

Charity Commission guidance sets out the following key points for trustees:

- Be clear about the basis of investment. The approach familiar to many trustees is for charities to invest solely to generate income. Recent developments have encouraged charities to also consider ethical investment, so that activity does not compromise the aims of the charity. The case of the Church of England investing in the pay day lender Wonga is an example. There is also programme related investment where charities want to invest in activities that achieve their objectives and are willing to sacrifice some income. Recent legislation has put these additional choices into statute so that any charity can exercise these powers unless their governing document has explicit restrictions.
- Set an investment policy that includes the expected level of return, the level of investment risk and attitude towards ethical investment. Having a clear policy will help both trustees and investment managers be clear about boundaries. For a charity with small investments (<£5m), the policy need not be long. Larger investors should be more explicit, especially if using more than one fund manager.

- It is a legal requirement to exercise reasonable care and skill when deciding upon investment matters and to obtain appropriate advice when making decisions. While the use of an investment manager protects the trustees to an extent, they still have to exercise reasonable care. Recent legislation requires that investment professionals identify the level of expertise of a customer. This will help identify the level of risk taken and the level of support required.
- Consider the ethical aspect of investment. It would appear natural that charities, as values based organisations, would choose to invest ethically. However, there are a number of difficulties that can be raised to prevent that happening and one is the shades of grey involved. There are now increasing numbers of ethical options available on the market.
- When undertaking a programme related investment it is also a legal requirement that the charity be clear that the charity is making best use of resources, that any private benefit is incidental and that there is a clear end point. If the investment is similar to traditional arms length investment this is less problematic, but charities may wish to invest directly in the shares of another entity such as a subsidiary or a joint venture and in this case, a clear basis of investment is important.

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## Banking


Banking has a degree of overlap with investment matters and an investment policy should include considerations of liquidity and banking.

- Banking services should be kept under review and trustees should be aware of the level of charges and benefits available in the market. In addition to the high street banks there are new entrants into the market, charity sector specific players and private banks. Electronic banking has reduced reliance upon branches, but this can still be important for charities with local fundraising or shops.
- A primary reason for a good banking relationship has been the ability to borrow and a charity's bank should always be the first port of call for a loan. However, because of the overstretch in the industry leading to the 2008 crash, many banks have not been willing to lend. This has led to more reliance on specialist lenders.
- Setting up bank accounts for a new entity can be a frustrating experience, partly because of anti money laundering legislation that affects all banks but partly because pressure on the industry means that some banks do not want the business. It is worth checking with your accountant to see if they can recommend a suitable bank.
- Trustees should be aware of the risks inherent within the banking sector. In 2008 it appeared that depositors with the Icelandic banks were going to lose their money until the UK government stepped in to guarantee deposits. That guarantee still stands but is limited to £85,000 per customer. Not all banks are covered by the scheme so it is worth checking.

## Land and property

Land and Property often form the majority of assets for charities and so the effective use of space is a key consideration for trustees.

- Property can be retained as part of an investment. As such, it is subject to the same considerations as investment funds. Target rates of return and the costs of management need to be explicit. However, charities often have mixed motives with property, seeing the assets as both an investment and as part of charitable activity. This echoes the programme related activity issues identified above.
- Operating properties allow the charity to carry out its aims and objectives. Examples would be a school building, a day centre or social housing. Capital appeals are a good way of securing ownership and providing a long term asset for the charity, allowing both present and future needs to be met. 






-  Property owners are often willing to allow charities to occupy surplus space at a peppercorn rent pending development and trustees should be aware of the potential to keep costs low. However, while renting and short term leases provide flexibility, there is always the risk of rent rises and owners changing their mind. Continuity of service may point in the direction of ownership.
- Charities need to take particular care when buying and selling land and property using appropriate advice from qualified professionals. Permission from the Charity Commission must be obtained where land is disposed of to a connected person.

## Conclusion

Charity trustees have a duty of care to act reasonably in the stewardship of resources and this article highlights the main areas to be considered. If in any doubt do consult your specialist charity accountant for assistance.








### Checklist for the month

-  Set up a regular review of investment activity.
-  Consider if ethical investing or social investment might be a more effective use of charity resources.
-  Review the costs of banking to your charity and balance them against the benefits received.
-  Review how property is used, consider moving if it is not fit for purpose.
-  Link these reviews to the risk profile of the investment activity for the charity.



### Where can I get more information?

-  **Charity Governance, finance and resilience: 15 questions trustees should ask**
-  **CC14 Charities and investment matters**
-  **CC25 Managing charity assets and resources**
-  **CC28 Sales, leases, transfers or mortgages: what trustees need to know about disposing of charity land**
-  **CC33 Acquiring Land**

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