

FAITH & SOCIAL  
COHESION

## Faith in Good Governance



## 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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## Foreword

There are many thousands of faith-based charities operating in England and Wales, including those directly concerned with advancing religion and those for whom faith is an important inspiration. Their charitable activity is wide ranging and their beneficiaries can be counted in their millions. These charities are amongst the oldest and most numerous on the Register.

Charities working across the faith spectrum vary greatly in size and structure. The purpose of this guidance is to help faith-based charities comply with charity law, and to equip them to work even better, whilst recognising that maintenance of their faith-identity, core aims and mission is key.

This guidance includes a number of case studies which describe approaches to governance adopted by different charities. The Commission is grateful for the assistance of those organisations and individuals who have contributed.

Dame Suzi Leather, Chair

Andrew Hind, Chief Executive

## A. Introduction

### A1. What is this guidance about?

This publication contains guidance on those aspects of the legal and good practice framework which are most likely to be of relevance to faith-based charities. In addition to information about generic legal requirements and good practice, it draws on our experience of charities operating across the faith spectrum and includes the perspectives of some of those associated with particular faith-based charities. We recognise that trustees must have the flexibility and freedom to decide what is the best way to achieve their charities' aims and preserve their faith-basis and values.

### A2. Who is it aimed at?

This guidance is primarily aimed at the trustees, staff and volunteers of those charities established with a religious purpose whose primary focus is religious worship and associated activities, rather than wider social or pastoral activity. We recognise that many charities with a religious purpose will undertake such wider activity as the outworking of that religious purpose, and of course there are also many charities which have a religious inspiration or ethos but are established for charitable purposes other than the advancement of religion. Whilst this guidance is aimed at smaller/newer charities whose focus is religious worship and associated activities, the basic principles would be equally applicable to other faith-based charities.

### A3. Must and should: what we mean

In this 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 those sections which contain a legal or regulatory requirement we have used the **L** symbol next to the answer in that section.

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

### A4. Using this guidance

This guidance provides a **summary** of the legal requirements and good practice recommendations which are relevant to different aspects of decision making and operating practice. Each summary includes a signpost to the Commission's more comprehensive guidance on these topics.

### A5. Other sources of help and advice

There are many resources which trustees can use to help them. We encourage trustees to make use of the expertise of relevant organisations to help them run their charities as effectively as possible.

Contact details for other useful sources of guidance with a brief description of what they do, can be found in section E.

## A6. Some technical terms used

**Assets** means the charity's property and includes cash, bank and building society deposits, investments, land, buildings, and equipment.

**Audit.** An audit required by Part 8 of the 2011 Act is the scrutiny of accounts by a registered auditor who, as an audit professional, will apply auditing standards issued by the Auditing Practices Board. A registered auditor is one registered with a recognised supervisory body in accordance with the Companies Act 2006.

**Auditor** means a person eligible under section 25 of the Companies Act 1989 to audit the accounts of companies (ie a registered auditor), or, in the case of an audit which is required by the governing document of a charity rather than by the Charities Act 2011 or the Companies Act 1985, a person qualified to conduct the audit.

**Charitable company** means a charity which is a company formed and registered under the Companies Act 1985, or to which the provisions of that Act apply.

**Charitable Incorporated Organisation (CIO)** means a new legal form of incorporation which is designed specifically for charities, introduced by the Charities Act 2006 (now the Charities Act 2011). The CIO will combine the advantages of a corporate structure, such as reduced risk of personal liability, without the burden of dual regulation.

**Custodian trustee** means a corporation (not individuals) whose main function is to hold the legal title to investments and property on behalf of the charity. Custodian trustees can act only on the lawful instruction of the charity or managing trustees. A custodian trustee is a form of holding trustee but it has specific responsibilities as set out in section 4 of the Public Trustee Act 1906: it does not have any powers of management.

**Endowment funds** are funds which the trustees are legally required to invest or to keep and use for the charity's purposes. Endowment may be expendable or permanent. Trustees have the power to apply **expendable endowment** for the purposes of the charity.

**Excepted charities.** These are charities which do not have to register with us, but in most other respects are fully within our jurisdiction. The normal registration threshold is a gross income of £5,000 per year, unless the charity is otherwise excepted by Order or Regulation or a registered place of worship

**Exempt charities.** These are charities which the 2011 Act exempts from a number of its provisions, including registration with the Commission. An exempt charity will often follow specific accounting and reporting requirements directed by, or under, some statutory provision which specifically relates to it.

**Governing document** means any document which sets out the charity's purposes and, usually, how it is to be administered. It may be a trust deed, constitution, conveyance, will, memorandum and articles of association, Royal Charter or Scheme of the Commission.

**Holding trustee** means a person, corporation or individual who holds legal title to a charity's property on its behalf. The name of the holding trustee is shown on the land register or company stock register as the person holding the legal title to land or shares belonging to the charity. The charity's governing document may confer additional powers and responsibilities on the holding trustee(s), but holding the legal title to the charity's property is usually all they do. Provided that holding trustees act only on the lawful instructions of the managing trustees they will not be held responsible for any action (or lack of action) of the managing trustees.

**Non-company charities.** These are charities which are not charitable companies. Examples include trusts, unincorporated associations, and also corporate bodies which have been incorporated by means other than under the Companies Act 1985 (eg by Royal Charter).

**Permanent endowment** is property of the charity (including land, buildings, cash or investments) which the trustees may not spend as if it were income. It must be held permanently, sometimes to be used in furthering the charity's purposes, sometimes to produce an income for the charity. The trustees cannot normally spend permanent endowment without our authority.

**Purposes (sometimes called objects)** are the legal charitable purposes for which a charity exists or the things that it was set up to achieve as set out in its governing document. The purposes may be worded quite broadly and expressed in legal language. They direct (and consequently restrict) how the charity's assets must be used.

**SORP** means The Statement of Recommended Practice which sets out the recommended practice for the purpose of preparing the Trustees' Annual Report and to preparing the accounts on the accruals basis. The accounting recommendations of the SORP do not apply to charities preparing receipts and payments accounts.

## B. Registering your charity

You may be thinking about setting up a new charity, whose aims include advancing religion, or already be actively involved in running one. Depending on its level of income, your church, gurdwara, mandir, meeting house, mosque, synagogue, temple, vihara or other place of worship may be required by law to register with us. Registered charity status brings several advantages including a number of tax breaks and, often, the ability to raise funds from the public, grant-making trusts and local government more easily than non-charitable bodies. This section outlines the general registration process and requirements, and deals with new registration requirements which now affect many Christian church charities.

### B1. What is a charity?

A charity is an organisation that is set up to fulfil one or more purposes that the law recognises as charitable. It cannot have some purposes which are charitable and some which are not. The legal meaning of charity does not always coincide with what people in general would consider to be a good cause. A charity must have purposes for the benefit of the public. Charity trustees and relatives or closely related companies cannot benefit personally unless this is an inevitable consequence of carrying out the organisation's purpose. Being a charity is not a matter of opinion, or of preference, but a matter of law. Registration with the Commission does not make you a charity. The way you are set up, and the purposes you have chosen make you a charity. Registration is a recognition of your charitable status.

### B2. What is a religious charity for the purposes of charity law?

The advancement of religion for the public benefit is a longstanding charitable purpose and there are a number of religions, the advancement of which, is accepted as charitable.

For **more information** about the definition and characteristics of religion and the meaning of advancing religion for the purposes of charity law see section D7 of this guidance and the [public benefit guidance](#) section of our website.

The descriptions of charitable purposes listed in the Charities Act 2011 can be found in the [Registering a Charity](#) pages of our website.

### B3. What are the main advantages of being a charity?

The public, and in particular funders, are more likely to donate to registered charities because they know that they come under the Charity Commission's regulatory framework.

Charities do not normally have to pay:

- **Income Tax:** on income from investments, land and property provided the income is applied for charitable purposes.
- **Corporation Tax:** on income earned from trading activities, provided the profit is applied for charitable purposes.

- **Capital Gains Tax:** on gains made on the sale of assets provided the income is applied for charitable purposes.
- **Stamp Duty:** on transfers or conveyances to a charity.
- **Business Rates:** charities pay no more than 20% of normal business rates on the buildings which they use and occupy to further their charitable purposes.

People who give to charities can do so in a way that increases the value of their gift:

- Under the **Gift Aid Scheme**, UK charities can claim back the basic rate tax that an individual has already paid.
- **Higher rate tax payers** may also be able to personally recover the difference between the basic and the higher rate of tax on the gifts they have made. The Scheme also allows UK companies to make gifts of money to charity before any tax is deducted.
- Gifts made to a charity by a bequest in a will are free of **Inheritance Tax**.

Other benefits include:

- Access to a range of free advice and guidance from us on issues like fundraising and governance.
- Registered charities have the benefit of a charity registered number and the badge/brand of charity for fundraising purposes and can maximise the financial benefit through Gift Aid arrangements.

## B4. What is the Register of Charities?

There are about 180,000 registered charities. The Commission's Register of Charities is a computerised database containing key information on all these charities. Details include the charity's name, its purposes, its annual income, what type of governing document it has, and the name and address of a contact within the charity.

The Register helps the public to find information about charities. For example, to check if an organisation which is raising funds is registered, or to see from a charity's accounts how it is spending its money.

## B5. Which charities need to register? **L**

An organisation has a duty to apply for registration if:

- it is not excepted\* or exempt from the requirement to register: and
- it is set up in England and/or Wales for exclusively charitable purposes; and
- it has an income exceeding £5000 per annum; and either:
  - it is a company incorporated in England and Wales; or
  - the majority of charity trustees live in England and Wales; and/or
  - the majority of assets are in England and Wales.

\* For information about new registration requirements for religious charities, which have previously been excepted from the requirement to register, see questions B11-B13.

## B6. Do registered places of worship have to register with the Commission? **L**

Organisations of most faiths can register a place of worship with the Registrar General. For advice, you can contact the Register Office at your local council. Registered places of worship are exempted from the requirement to register. The extent of this exception is widely misunderstood. This exception from registration, which has not been changed by recent legislation, does **not** extend to charitable funds held in connection with registered places of worship. It does not apply to property held on distinct trusts such as for the maintenance or repair of the place of worship, or for the payment of a minister's stipend. Consequently, if in addition to being a registered place of worship, a charity has income of more than £5,000 a year, it should register.

## B7. We belong to a 'parent' charity. Do we still need to register? **L**

A large number of charities, including many faith-based charities, are part of a grouping of organisations. Being part of the group is often key to their identity, aims and activity. There are a number of ways in which charities can group together.

They might operate as part of an affiliate or federal structure, in which individual charities are legally separate and largely independent, but are able to obtain support and strategic central services from the 'main' charity.

Alternatively, they may operate as part of a branch structure where member branches are legally part of the 'main' charity, and the branches and 'main' charity together form one centrally run organisation. Here, the 'main' charity has significant control of the local branches, owns their property and accounts for their activities in the 'main' charity accounts.

Charities can only share the registration number of other charities in limited circumstances. They can do so where they are not distinct charities in their own right, but rather are projects of the 'main' charity, which operate largely under its direction and are accounted for in the 'main' charity's accounts and reports. Other charities, including those that belong to a grouping, must register if they meet the requirements outlined at B5 above.

### **Operating as part of a grouping of charities**

The **Tara Mahayana Buddhist Centre** was founded in 1983 following the directions of the Venerable Geshe Kelsang Gyatso, who is the founding spiritual guide of the New Kadampa Tradition - International Kadampa Buddhist Union ('NKT-IKBU'). The charity was registered in 1986.

The charity operates from Etwall in Derbyshire where it has established a Dharma Centre. This serves to help people improve their understanding and experience of Buddha's teachings through study, practice and the observance of moral discipline. The charity teaches the three study programmes of the NKT-IKBU, runs day courses, weekend and longer residential courses and retreats, and welcomes people to visit or live at the centre to experience life within a Buddhist Community. It also runs courses of regular evening classes at rented venues throughout the Midlands.

The Centre is maintained by its resident community which comprises teachers and other volunteers who live and study at the Centre either full time or on short-term working visits.

The charity is a member of a separately registered charity called 'New Kadampa Tradition - International Kadampa Buddhist Union', whose founding General Spiritual Director was Venerable Geshe Kelsang Gyatso. All of the NKT-IKBU Dharma Centres are members of that separately registered charity and their resident teachers make up its Education Council whose role it is to provide general spiritual assistance to all NKT-IKBU Dharma Centres and to ensure the purity and authenticity of the New Kadampa Tradition.

From the International Union's perspective, "The membership structure is the natural one for the purposes of the charity, which are to support the work of the member Centres and to promote further propagation of the spiritual tradition. It gives strength and cohesion to the charity, each member being an integral part of the whole. Membership also helps to maintain a balance between spiritual and mundane authority within the tradition, through democratic participation. And it gives opportunity for the different member Centres around the world to share their own practical experience and learn from one another."

From the Tara Centre's perspective, "Membership of the NKT-IKBU charity enables the Tara Centre to benefit from the experience, support and expertise of a large network of charitable organisations all with the same charitable aims. This allows us to be confident that the teachings, prayers and so forth that we offer to the public are in accordance with an established and authentic spiritual lineage. Through our representative's membership of the Education Council Tara Centre contributes to the job of ensuring the spiritual authenticity of this tradition."

## **B8. We are thinking about registering as a charity. How can we find out more?**

A summary of the main things to think about before registering a charity can be found on our website under [Registering a Charity](#).

## B9. What about public benefit? **L**

All trustees of all organisations applying for registration are required to have regard to the Commission's public benefit guidance and to demonstrate that their organisation's aims are for the public benefit as part of the application process.

For **more information** about the public benefit requirement, please see section D7 of this guidance and the [public benefit guidance](#) section of our website which gives full details of the principles of public benefit and the reporting requirements for different sizes of charity.

## B10. How long does it take to register?

We aim to decide an application for registration in an average of 40 days.

However, we are normally able to reach a decision much more quickly if you have used an approved governing document and have completed the application form and trustee declaration accurately and completely.

Occasionally we receive an application from an organisation with novel purposes and/or where there is significant private benefit. In such cases it may take us longer to consider all the legal issues and reach a conclusion as to whether the organisation is charitable or not.

The Commission now offers an on-line application for registration service. This provides a quick and easy means of getting the registration application form and governing document to the Commission. The user-friendly system will provide you with online guidance throughout completion of the form, and allows you to save the form at any time, and come back to it if you wish.

### Registering as a Charity

Case study from Mr Amjid Raza, **Dudley Mosque and Muslim Community Centre**. This charity was registered by the Commission in January 2009.

The charity's purpose is the advancement of the religion of Islam and the provision of other charitable services for the local Muslim Community. The mosque serves more than 2,000 Muslims around Dudley in their religious practice. Amongst its other activities the charity provides religious education and language classes, activities to spread awareness and understanding of Islam, and to promote community cohesion. The Centre also provides specialist services for the specific sections of the community such as women, older and young people and represents the community on various faith, community and volunteer groups.

On its experience of the registration process the charity says "We were supported by the Faith and Social Cohesion Unit. The process of application was straightforward and smooth. There were no delays in processing our application." Regarding the advantages of registered status, "It provides confidence and trust to the members of the organisation, it provides a good image and the general public feel confidence that the organisation is regulated by the Charity Commission. It enables us to apply for the funding and other support to successfully run our organisation."

## B11. What has changed for excepted charities and what plans do we have to bring the change into force? **L**

The Charities Act 2011 provides that charities previously excepted from the requirement to register, such as churches and chapels belonging to various Christian denominations, have a duty to apply for registration.

For **more information** about the faith-based charities that will be affected, please see our website. The information there includes what is happening for the following different groups of charities:

- Excepted Church Charity Programme
- Other groups of churches that have not previously registered
- Registered places of worship
- Local Ecumenical Partnerships

From 31 January 2009 the part of the Charities Act 2006 (now the Charities Act 2011) that requires excepted charities with an annual income over £100,000 to be registered is in force. For excepted charities with an annual income between £5,000 and £100,000 the exception from registration has been extended until 2012. The £100,000 threshold is an interim level and may be reduced in the future following a review of the Charities Act.

## B12. We are an excepted church charity but we want to be a Charitable Incorporated Organisation (CIO). Does this make any difference to the registration requirement? **L**

Charities choosing to become CIOs will be required to register and submit annual information to us whatever their income. Neither the £100,000 nor the £5,000 income threshold will apply to any church charity that chooses to become a CIO.

The CIO will not be available before spring 2012. The availability of the CIO structure does not affect the registration requirement and charities that are liable for compulsory registration must do so.

For other charities who wish to access the CIO structure, there will be a mechanism to enable them to change their legal form to the CIO when it becomes available.

## B13. We do not want to use the approved governing document for our denomination. Can we apply for registration independently and use a different governing document?

Some large national charities, including a number of faith-based charities, produce an approved governing document that can be used by organisations associated with that charity. These approved documents contain both agreed purposes and administrative provisions that are specific to a particular type of organisation.

Almost all the previously excepted charities can take advantage of this service and we strongly recommend that they do so.

Whether your organisation can use a different governing document depends on your church affiliation. For some churches, including the Church of England, the Methodist Church, the United Reformed Church and the Church in Wales, the type of governing document that must be used may be defined by statute law.

If you think the approved governing document does not meet your requirements then, in the first instance, you should discuss this with the denomination's umbrella body. They are best placed to advise you whether you can make changes or use a different document.

## C. Governance roles

In addition to trustees, a wide range of people are often involved in running a charity. In a faith-based charity, these can include paid staff, religious leaders, volunteers and members. It is vital that all groups and individuals have a clear understanding of their respective roles. It is the trustees who retain ultimate responsibility and authority.

This section outlines the role of charity trustees, 'holding' trustees, members, and covers some governance issues affecting religious leaders.

### C1. Who are our trustees?

The trustees are the people who are responsible for the control and management of a charity and who serve on its governing body. Information about who they are can usually be found in the charity's governing document. In the charity's governing document the trustees may be called committee members, managing trustees, governors or directors or other, similar, names. All charities should have a clearly identifiable body of trustees. Most governing documents set out how the trustee body should be constituted. It is critical to have clarity about who is and who isn't a trustee.

Trustees have, and must accept, ultimate responsibility for directing the affairs of a charity and ensuring that it is solvent, well run and meeting the needs for which it has been set up. The key responsibilities of trustees are summarised at section D3.

### C2. Our governing document mentions holding trustees. What is their role?

In common with other charities, many faith-based organisations have holding or custodian trustees often referred to in the governing document as the "property trustees". The function of a holding or custodian trustee is usually restricted to holding title to the charity's place of worship and other property. Often the individuals chosen for this role are the senior members of the community served by the charity.

Problems arise where the role of holding trustees is misunderstood. It is important to recognise that the holding or custodian trustees are not the charity trustees and must generally follow the lawful instructions of the charity trustees.

### C3. Are there any special governance considerations where religious leaders are concerned?

One of the distinctive governance issues that can arise for those involved in faith-based charities is how religious leaders can effectively carry out their role at the charity in a way that is effective and consistent both with their wider role as trustees or employees, and in harmony with the governance role of other trustees, colleagues and members.

#### **Religious leaders and trusteeship: L**

Sometimes religious leaders are trustees. It is valid for the trustee group to look to those trustees with spiritual authority for guidance on spiritual matters. Apart from this, unless the governing document says otherwise, religious leader trustees should have the same level of involvement and participation in decision making as all other trustees. All decisions concerning the charity must be taken by the trustees acting together.

Payments, benefits or employment for religious leaders who are also trustees must be authorised by the governing document or a statutory power. Otherwise they will require Charity Commission approval.

For **more information** about trustee payments, please see our publication *Trustee expenses and payments* (CC11) and our [guide to trustees on conflicts of interest](#). Both are available on our website.

### **Office holder trustees**

All those who are trustees, including very senior religious leaders, need to ensure that they are able to devote the time necessary to discharge their duties as trustees properly. Sometimes their involvement as a trustee will be necessary to the charity's work, but in other cases the benefit of their involvement might be delivered in other ways without their taking on the onerous role of being a trustee.

#### **Using governing documents to clarify trusteeship roles**

##### Case study from the **Evangelical Alliance**

The Evangelical Alliance, African and Caribbean Evangelical Alliance, Anthony Collins (solicitors), Stewardship and the Charity Commission worked together to provide three model governing documents and related guidance notes for independent churches. These documents were the culmination of four years of work. The work was primarily designed to strengthen accountability and governance of new independent churches. The model governing documents were drawn up by the four organisations, in partnership with the Charity Commission.

A revised Model Trust Deed offers independent churches with a non voting membership a legal structure to help govern their charity. There is also a Model Constitution, designed for situations where the wider membership of the church is involved in its governance and decision making processes, and a Model Memorandum and Articles of Association designed for situations where a corporate structure is considered important were added. Guideline documents were prepared to give further assistance.

The model governing documents are designed primarily for new, independent churches. They set out the proper checks and balances required to allow paid church leaders to take appropriate leadership responsibilities as church charity trustees, manage any potential conflicts of interest, and offer churches a legal structure to help govern their charity. The key aims are to manage any potential conflict of interests, make clear the difference between trusteeship and spiritual leadership and ensure that those leading the spiritual direction of a church can also hold appropriate responsibilities for charity governance.

Each model governing document has a clause which highlights that the responsibility and authority for spiritual leadership rests with the recognised spiritual leaders within the church but also recognises that the trustees and the Spiritual Leadership must work in partnership. The Spiritual Leadership cannot require the trustees to do anything which is in breach of either the governing document or the general law. The trustees must bear in mind the spiritual direction of the church and the views of the spiritual leaders. The process for appointing members of the Spiritual Leadership should be clearly documented as should all changes in the membership of the Spiritual Leadership.

Helen Calder, Executive Director: Finance and Operations at the Evangelical Alliance said: "I'm delighted that the project is complete and all three documents and related guidelines for use are now available for churches on the Alliance website ([www.eauk.org/model](http://www.eauk.org/model)). The four organisations involved want to express their appreciation for the positive way they have been able to work together with the Charity Commission."

## Religious leaders and employment

Where religious leaders are employed by the charity, the trustees must be clear about the relationship which exists between the charity and the paid individual and about the scope of the employee's responsibility. Trustees need to be aware that principles of employment law may apply to religious leaders in the same way that they do for other employees.

### Accommodation for religious leaders

The provision of free accommodation for religious leaders at or near a place of worship is often part of the way in which religious charities carry out their aims. Provided the accommodation is commensurate with need, this is entirely legitimate.

**London Sri Murugan Temple** was established and registered as a charity in 1976 to build a Hindu temple and to provide a centre to cater for the religious and cultural needs of Hindus from various countries, settled in the United Kingdom.

The temple is situated in Manor Park in the London Borough of Newham. It was completed and consecrated in 1984 and continues to provide a place of worship and additional services connected with the observance of Hindu faith and traditions. The temple is open to all 365 days a year, within the specified opening times. In addition to religious services, the charity offers cultural and educational classes relevant to Hinduism, including scripture classes and yoga classes, and distributes religious publications to the public. It also provides a meeting place for the elderly with the aim of alleviating isolation and loneliness, and to provide counselling and spiritual guidance.

The charity has nine priests, of whom eight are provided with free accommodation at the temple. This is a part of the employment terms offered to priests on appointment. There is a priest available at all times so that between them they provide availability 24 hours a day for those in spiritual need. Contributions towards services go directly to the charity. No fees are paid directly to priests.

The charity said "Priests are normally based at the temple or very nearby. This is because although the temple is closed at night and for a small part of the day, the priests are expected to be on call at all times. Furthermore the priests are expected to be at the temple very early in the morning to carry out the daily religious duties before the formal opening of the temple at 8am; similarly there are duties to be completed at the end of the day after the Temple closes to the public.

During some special times of the year, the Temple opens at 5am and the priests are expected to perform the normal duties before this time".

## C4. What are the rules about private benefit to religious leaders? **L**

Any benefits given to religious leaders must be reasonable and the trustees must be satisfied that they are necessary for the proper administration of the charity. As above, if the religious leader in question is themselves a trustee, Charity Commission authority may be needed.

Whether or not the person in question is a trustee, we would examine any evidence of private benefit to religious leaders that is more than incidental. To be incidental benefits must be a necessary part of the process of carrying out the charity's aims or be received as a necessary consequence of carrying out the aims and the level of benefit given must be reasonable.

If the purpose of an organisation is to enhance the wealth of the leader or leaders of a religion, this would not be charitable.

Examples of the types of private benefits to religious leaders, which may or may not be incidental, depending upon the level of benefit that arises, are:

- the payment of subsistence, accommodation and other living expenses;
- payment for their services;
- the enhancement of the leader's personal reputation or the reputation of their ministry;
- increased income from the sale of merchandise, such as videos, books and tapes in which the leader has an interest; or
- an increase in the value of their associated intellectual property rights or the payment of other personal gifts to the leader.

In other circumstances, we may take the view that benefits to members of a religious community are more than incidental.

The following are examples of the types of non-incidental private benefit that might arise in charities whose aims include advancing religion:

- paying excessive expenses of the religious leaders and sometimes their families including:
  - very generous salary;
  - accommodation (beyond that commensurate with need);
  - travel (including mode of travel);
  - elevation of the status of the founder of a religion (and possibly of their family too) including self promotion and power;
- religious communities, for example where, in addition to free accommodation, expenses of an over-generous scale are given and sometimes additional paid employment is also offered;
- the upkeep of private chapels to which the general public have no right of access;
- the saying of private masses (in some circumstances) or the upkeep of a particular grave.

## C5. What part should our members play?

Many faith-based charities have a membership governance model, which brings together people who have a common belief, interest or concern. When a charity's congregation or membership is active in shaping the agenda and objectives of their charity, there is potential for the trustee body to be refreshed and the charity's accountability can be improved. Membership charities which are effectively run can also enable individuals to be more involved in their local communities.

A member is a person or organisation who has agreed to belong to the charity. The charity's governing document usually says who can join the charity and sets out the rights and duties of members.

## C6. How do we avoid disputes and conflicts in our charity?

Whilst disputes only affect a minority of membership charities, the scope for problems is greater because the number of people involved can make governance arrangements more complex to manage. To help minimise the risk of conflict:

**Trustees** should:

- Carefully check the governing document provisions on how elections should be organised and the correct way of appointing trustees.
- Ensure that any arrangements for representation of different groups on the trustee body are included in the governing document and that these provisions are followed.
- Keep the membership list and (where relevant) subscriptions records up to date.
- Be clear about the role of members and their legal responsibilities toward them. It might be useful to record roles and responsibilities of members in the governing document such as levels, if any, of subscription payable, how people apply for membership and the criteria for acceptance, whether members will have any voting rights, and how membership may be terminated.
- Be aware of the potential benefits of mediation and, where appropriate, consider whether it might be a useful tool for resolving a disagreement within the charity.

**Members** should:

- Ensure that the charity clearly explains what the membership role involves, including the rights and responsibilities which accompany the role.
- Exercise their right to vote in the interests of the charity for which they are a member.
- Abide by decisions which are taken fairly and within the rules of the charity.

We will only get involved when we have evidence that all other available methods of resolving a dispute have been attempted and have failed and if there are no validly appointed trustees.

You can find **more information** about governance in membership charities in our Research Report [Membership Charities \(RS7\)](#) and about dispute resolution in our [‘Conflicts in your Charity: a statement of approach by the Charity Commission’](#). Both are available on our website.

## D. Relevant summaries

The following summaries cover the main aspects of the legal and good practice framework which are likely to be of relevance to faith-based charities. Each section includes a signpost to the Commission's comprehensive guidance.

### D1. Governing document changes

When a charity is formed, its purposes and the rules for how it should operate are set down in the governing document. Founders aim to ensure that a governing document serves the charity well for the foreseeable future, and allows for changing circumstances. However, it is likely that with the passage of time, new needs and unforeseen eventualities will develop and that the governing document may need updating to reflect these changes.

#### **Can we change our governing document?**

It is the duty of trustees to seek to change the governing document where the charity's objects no longer serve a useful purpose or where other changes are needed. This will help to ensure the charity's continuing effectiveness. Changes to governing documents are covered by different laws and regulations relating to different kinds of charity. You will need to consult our full guidance on this subject and you may need advice from the charity's professional advisers.

## Reviewing your governing document

Case study from **Edgware & District Reform Synagogue**.

The synagogue was founded in 1935, has approximately 2000 families amongst its membership, and cares for almost 4000 people. The synagogue not only provides religious services, but also formal and informal educational services, and social and cultural activities for age groups ranging from 2 weeks to 80 years plus.

The governing document of the synagogue is called The Laws. The Laws of the synagogue were originally adopted in March 1954, and subsequently were subject to amendment on a number of occasions, the most recent being April 2007. Most of these amendments dealt, on each occasion, with one specific matter. However, in 2008 it was felt by the Council (the synagogue's trustee body) that further specific matters needed clarification, while at the same time attention needed to be given to a number of minor typographical and terminological points so that wording and phraseology could be brought up to date.

A Special Committee was appointed by Council to investigate this matter and prepare an amended version of the Laws for approval at a Special General meeting held in April 2009. There were a large number of amendments the majority of which might be termed as cosmetic not affecting in any way the mode of synagogue management, but rather bringing up to date the phraseology. There were a few areas where the amendments had a significant bearing on synagogue management such as changes to expenditure limits for capital and revenue, and changes to the period within which the charity's AGM must be held.

All changes were agreed by members subject to the agreement of the Commission. While only one change required prior written consent from the Commission, all amendments were acceptable as drafted. The charity has sent certified copies of the resolution and revised document so that its Register entry can be updated.

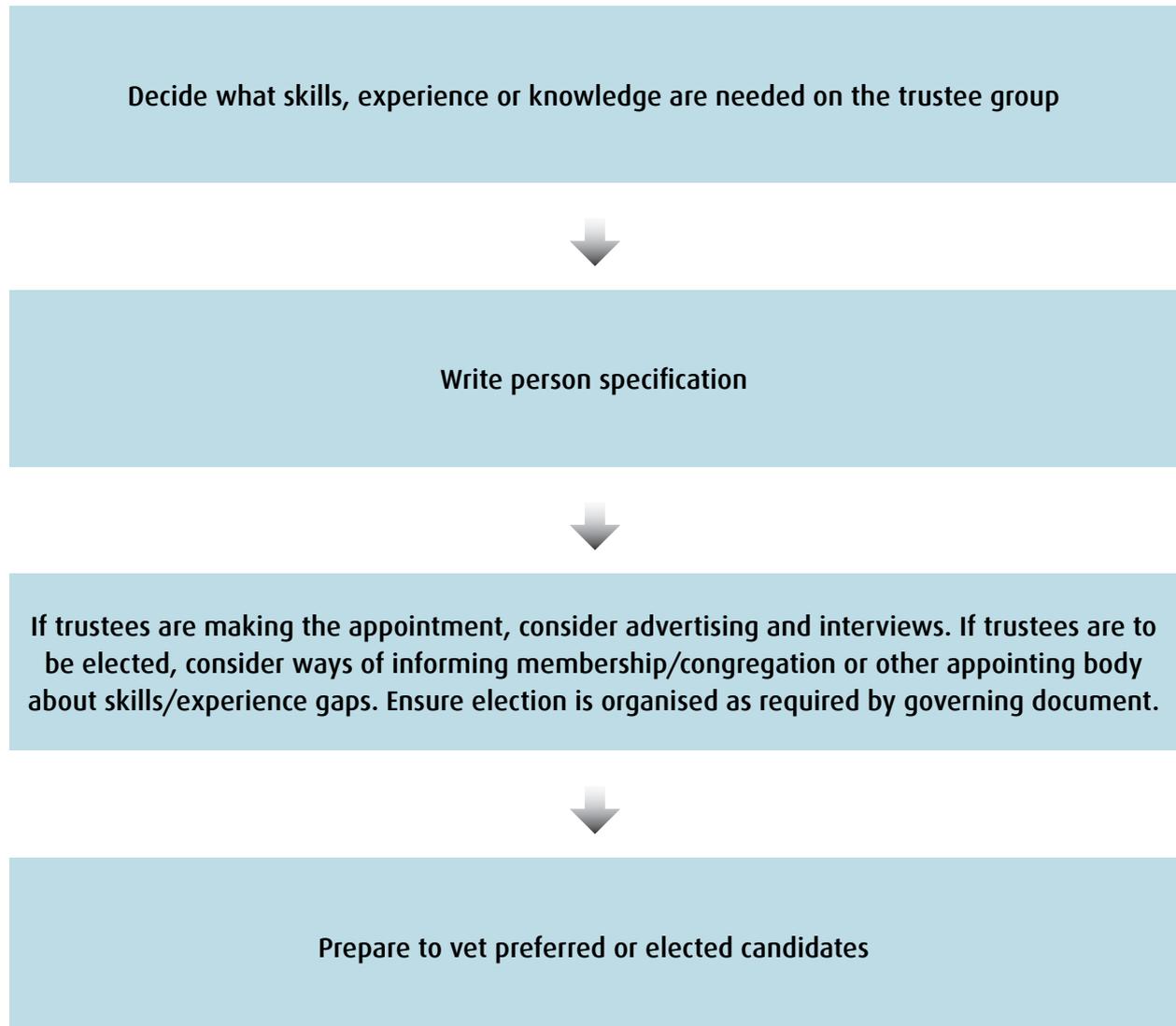
The charity said "The Working Party set up to look at the Law changes met four times. It was a very interesting exercise to be able to examine every Law, paragraph and line to see what it meant and to change it to represent today's interpretation. The most obvious benefit of working with an up to date document is that all trustees have had an input and a chance to study the document in full and it gives them clear guidance for the management of the charity."

You can find **more information** about changing your governing document in our publication [Changing your charity's governing document \(CC36\)](#).

## D2. Finding new trustees

The election or appointment and subsequent induction of one or more new trustees into a charity can strongly influence how effective the charity is in the future. Where all works well, it can lead to a balanced and effective trustee board and a well governed effective charity. However, where these processes are weak, the ability of the trustee board to manage the charity may be affected, and in the worst cases it can lead to major problems for the charity and its beneficiaries.

## The recruitment process - a typical sequence of events



### How do we vet potential trustees? **L**

- The trustees check that the candidates have not been disqualified from acting as trustees, and candidates are asked to confirm in writing that this is the case.
- Candidates are asked to consider and declare any existing or potential conflicts of interest.
- Many faith-based charities run a range of services for different groups in their community. If the charity works with young or vulnerable people, in addition to having appropriate child protection policies in place for all staff and volunteers who work with children, the trustees must seek any necessary disclosures from the Criminal Records Bureau.
- In the light of the checks, declarations and disclosures, the trustees decide to go ahead and formalise the appointment of new trustees.

## How do we make the appointment?

- The trustees check the charity's governing document to ensure that they appoint the new trustees properly.
- The Chair of the charity writes to the prospective trustees, setting out their duties and the charity's expectations of them; they are asked to sign and return a copy of the letter.
- An information pack about the charity is sent to new trustees, and a full induction process is arranged. New trustees meet existing trustees and others involved with the charity, such as members of staff, volunteers and beneficiaries.
- The new trustees attend their first board meeting and are duly welcomed. All relevant parties, such as funders and the charity's solicitors and auditors, are notified of the new appointments.

## Should faith-based charities aim to have a diverse trustee board?

Yes, a diverse trustee board is more likely to contain a broader range of skills, experience and representation than one which is more narrowly based. We believe that the governance arrangements of charities will be improved where trustees are recruited from a wide range of backgrounds. We are not seeking to impose modern secular values on faith-based charities. Nor do we expect them in the appointment of their board members to proceed in a way which contradicts their organisation's religious doctrines. For some faith-based charities achieving greater diversity at board level might include having some trustees from parts of the community which have traditionally not played a large part in charities such as women, young people, and people with disabilities.

You can find **more information** about recruiting and appointing new trustees in our publication *Finding New Trustees: What charities need to know (CC30)* which is available on our website.

## D3. Trustee responsibilities

Charity trustees are the people who are responsible for the control and management of a charity and who serve on its governing body. They may be known as trustees, directors, board members, governors or committee members. The principles and main duties are the same in all cases.

Trustees have, and must accept, ultimate responsibility for directing the affairs of a charity and ensuring that it is solvent, well run and meeting the needs for which it has been set up.

## What are the key legal responsibilities of charity trustees? **L**

### Trustees must:

- Use charitable funds and assets reasonably, and only in furtherance of the charity's objects.
- Ensure that the charity is and will remain solvent.
- Act with integrity, and avoid any personal conflicts of interest or misuse of charity funds or assets.
- Ensure that the charity does not breach any of the requirements or rules set out in its governing document and that it remains true to the charitable purpose set out there.
- Avoid undertaking activities that might place the charity's endowment, funds, assets or reputation at undue risk.

- Take special care when investing the funds of the charity, or borrowing funds for the charity to use.
- Ensure that the charity complies with charity law, and with the requirements of the Charity Commission as regulator. In particular trustees must ensure that the charity prepares reports on what it has achieved, how it has delivered public benefit, and Annual Returns and accounts as required by law.
- Comply with the requirements of other legislation and other regulators (if any) which govern the activities of the charity.
- Use reasonable care and skill in their work as trustees, using their personal skills and experience as needed to ensure that the charity is well-run and efficient.
- Consider getting external professional advice on all matters where there may be material risk to the charity, or where the trustees may be in breach of their duties.

You can find **more information** about what is expected of someone who is appointed to act as a charity trustee in our publication *The Essential Trustee: What you need to know (CC3)* which is available on our website.

#### D4. What about good practice?

The Commission has published a good practice framework which is designed to help trustees improve the effectiveness of their charity. The framework can be used by all types and sizes of charities as a means of reviewing how their charity is performing and to identify the areas in which the charity is strong and those areas which need further development. The framework is based on six hallmarks of effectiveness.

An effective charity:

- Is clear about its purposes, mission and values and uses them to direct all aspects of its work.
- Is run by a clearly identifiable board or trustee body that has the right balance of skills and experience, acts in the best interests of the charity and its beneficiaries, understands its responsibilities and has systems in place to exercise them properly.
- Has a structure, and policies and procedures to enable it to achieve its purposes and mission and deliver its services efficiently.
- Is always seeking to improve its performance and efficiency, and to learn new and better ways of delivering its purposes. A charity's assessment of its performance, and of the impact and outcomes of its work, will feed into its planning processes and will influence its future direction.
- Has the financial and other resources needed to deliver its purposes and mission, and controls and uses them so as to achieve its potential.
- Is accountable to the public and others with an interest in the charity (stakeholders) in a way that is transparent and understandable

You can find **more information** in our publication *The Hallmarks of an Effective Charity (CC10)* which is available on our website.

## Safeguarding your values

Perspective from Paul Gibson, a member of the **Littlehampton Quaker Meeting** and very active in the Quaker movement nationally.

Quite a few readers will know **Friends House** in Euston in London, having attended a conference or other event there. Our nickname is Quakers but we call ourselves “friends” and the charity which looks after our centrally-managed work at Friends House is called the Religious Society of Friends.

As a Quaker, I’ve always loved Friends House. Quakers are a non-credal, non-hierarchical movement so it’s not our head office or central office. I prefer to use positive language - it’s a place where kindred spirits of all formal faiths and none can come and feel comfortable and welcome.

### The issue

Friends House hosts our major Quaker gatherings and houses the 100 plus staff who run our centrally managed work. There is a restaurant, café and bookshop and we use the building for hospitality such as conferences. We have as many as 1,000 people joining us on a busy day.

Before we set up the trading company, the hospitality activities were carried on through the charity. This concerned us. Was the hospitality income potentially taxable as trading and, if so, what should we do? I joined a small working party to look into this: we had experience of hospitality, tax and finance and importantly, we knew how Quakers tick!

### What happened

Our working party recommended that we set up a trading subsidiary and Friends House Hospitality (London) Limited was formed with five members of the working party becoming the first directors.

In our governing document and our work, we resolved to follow the Quaker business method which has served us well for 350 years. So for instance where company law requires an ordinary or special resolution, we will obey the law and count votes. Otherwise, we will make decisions by discernment in the Quaker way; we believe that voting emphasises our differences and not what we have in common.

### What I learned

This can be summed up as trust in the Quaker business method and broad consideration of where our hospitality vision and values fit within Quakerism as a whole. In central London, we offer value for money, quality and a customer focus as you would expect. But we also provide a healing space which is appreciated by those who come to us, such as those affected by violence, aggression and oppression.

As a director of the trading company, I feel strongly that if we do not reflect Quaker values, we fall short. Our space is used primarily for worship and we respect this. Although relevant procedures and standards are in place, we chose not to have a service level agreement with the charity on the grounds that this is not needed between Quaker organisations.

It's important to make an acceptable profit and gift aid this to the charity to support its work and for us as directors to comply with law and regulation. But the reason I'm involved is to root Friends House Hospitality (London ) Ltd in Quaker ways.

This piece formed part of an article in Governance Magazine in June 2008. For **more information** about when charities may engage in trading activities for fund-raising purposes, and when a separate subsidiary trading company should be established to carry out those activities, please see our publication *Trustees, trading and tax (CC35)*, on our website.

## D5. Trustee liability: what if things go wrong?

The Charity Commission offers information and advice to charities on both legal requirements and best practice to help them operate as effectively as possible and to prevent problems arising. In the few cases where serious problems have occurred we have wide powers to look into them and put things right. Trustees may also be personally liable for any debts or losses that the charity faces as a result. This will depend on the circumstances and the type of governing document for the charity. However, personal liability of this kind is rare, and trustees who act prudently, lawfully and in accordance with the governing document will generally be protected.

## D6. Reports and accounts

The law sets out a framework for reporting and accounting by charities which is supplemented by the Charities SORP. But effective accountability is about more than complying with the law. The availability of charity reports and accounts on our website gives more immediate and wider accountability. This will benefit those charities that use financial reporting by providing relevant, timely and quality information which, in turn, provides an opportunity to build trust. We would encourage all trustees to use their Annual Reports and accounts to communicate with stakeholders and the wider public about their work - explaining the work their charities do and the achievements that result.

**The financial thresholds outlined below apply to financial years ending on or after 01 April 2009.**

### What returns do we have to make? **L**

- All charities must prepare accounts and make them available on request. The duty to file accounts and the Trustees' Annual Report with the Charity Commission applies to all registered charities whose gross income exceeds £25,000.
- Charities whose gross income exceeds £10,000 must also send a completed Annual Return to us which can be completed online.
- These documents must be sent to us within 10 months of the end of the financial year.
- For charities with income of £10,000 or less, the Annual Return/Update form is a convenient way for charity trustees to comply with their duty to notify the Commission of changes to key information about their charity.

### What type of accounts must we prepare? **L**

Charity accounts may be prepared either on the receipts and payments basis or the accruals basis. Which of these is needed will depend on the income of the charity and whether or not it has been set up as a company:

- **Receipts and payments.** This is the simpler of the two methods of preparation and may be adopted where a non-company charity has a gross income of £250,000 or less during the year. It consists of an account summarising all money received and paid out by the charity in the financial year, and a statement giving details of its assets and liabilities at the end of the year. Charitable companies are not allowed by company law to adopt this method.
- **Accruals.** Non-company charities with gross income of over £250,000 during the financial year, and all charitable companies must prepare their accounts on the accruals basis in accordance with the SORP. They contain a balance sheet, a statement of financial activities and explanatory notes. These accounts are required in accountancy terms to show a 'true and fair view'.

## What is the Trustees' Annual Report? **L**

- All registered charities must prepare a Trustees' Annual Report and those with a gross income which exceeds £25,000 must file this with us.
- The basic contents of the Annual Report are mandatory, though smaller charities which are not subject to audit are not required to provide as much information as larger charities which are legally required to have an audit.
- Charity trustees have a new duty to report in their Trustees' Annual Report on their charity's public benefit. The level of detail you will need to provide in your public benefit report will depend on whether your charity is above or below the audit threshold. More information is available in the [public benefit guidance](#) section of our website.

## What is the Annual Return? **L**

- All registered charities will be contacted by the Commission, shortly after the end of their financial year, and invited depending on their income, to complete either an Annual Update form or an Annual Return.
- Charities with a total income exceeding £10,000 are invited to complete and submit their Annual Return. Paper copies of the Annual Return are available on request. Trustees are under a legal duty to complete and submit an Annual Return form to the Commission, so that we can ensure that the details on the Register of Charities are as complete and accurate as possible. The Annual Return gives us basic financial details, and details of contacts, trustees, activities and of the charity's classification.

## Audit or independent examination? **L**

- Those charities with gross income of more than £25,000 in their financial year are required to have their accounts independently examined or audited – below that threshold, an external scrutiny of accounts is only needed if it is required by the charity's governing document.
- Precisely what type of scrutiny is needed depends on the income and assets of the charity. Trustees can opt for an independent examination if gross income is between £25,000 and £500,000 but an audit is required where the gross income exceeds £500,000. An audit will also be required if total assets (before liabilities) exceed £3.26 million, and gross income exceeds £250,000.

**More information** is available from Companies House, and in [Charity Reporting and Accounting: The essentials April 2009 \(CC15b\)](#), and from the 'Charities Accounts and Reports' pages on our website.

To assist charities preparing their reports and accounts in line with the recommendations of SORP 2005, we have produced a number of example reports and accounts that may be helpful in designing the layout and format of these documents, and for addressing new requirements for reporting public benefit. Our [Example Trustees Annual Reports and Accounts](#) include example reports and accounts for [Birchfield Mosque and Community Centre](#) and [St Emilion's Parochial Church Council](#).

## D7. What is the 'public benefit requirement'? **L**

The 'public benefit requirement' is the legal requirement that every organisation set up for one or more charitable aims must be able to demonstrate that its aims are for the public benefit if it is to be recognised and registered as a charity in England and Wales. Although all charities have always had to meet the public benefit requirement, the Charities Act highlights it by requiring all charities to demonstrate, explicitly, that their aims are for the public benefit, including charities advancing education or religion, or relieving poverty, which were previously presumed to be for the public benefit.

We have an obligation to ensure all charities meet the public benefit requirement and to provide guidance on what the requirement means. Charity trustees have a legal duty to have regard to our public benefit guidance and to report on their charity's public benefit.

### **What is our role with regard to charities whose aims include advancing religion?**

We are the registrar and regulator of charities, including charities whose aims include advancing religion. We are not the regulator of religion itself and cannot make subjective or value judgements as to the truth or worth of religion or religious beliefs.

Our role as registrar and regulator is to ensure that registered charities have charitable aims that are for the public benefit. The public benefit requirement is not intended to outlaw or prohibit any particular religious beliefs or practices; rather it is to determine whether or not a particular organisation with aims to advance a religion qualifies as a charity.

### **To what public benefit guidance must charity trustees have regard? **L****

Charity trustees must have regard to all of our statutory public benefit guidance that is relevant to their charity.

Therefore, all charity trustees must have regard to our general public benefit guidance, [Charities and Public Benefit](#).

In addition, charity trustees must have regard to the statutory guidance contained in our supplementary public benefit guidance on any subject that is relevant to their charity's aims, or the way in which they carry out those aims. (We indicate in our guidance which elements are supplementary public benefit guidance which forms part of our statutory guidance on public benefit.)

Our guidance [The advancement of religion for the public benefit](#) is directed at charities whose aims include advancing religion. It is not directed at faith-based charities as a whole, or bodies primarily working for the advancement of human rights, conflict resolution or reconciliation, or the promotion of religious or racial harmony or equality and diversity.

For **more information**, please see our website for details of all of our public benefit guidance which gives full details of the principles of public benefit and the reporting requirements for different sizes of charity.

## D8. Fundraising and safeguarding charity assets

Effective charitable work depends on securing adequate resources. Whether raising funds from their members or the wider public, it is very important that trustees manage and control fundraising effectively, efficiently and economically. The highest standards need to be adopted and systems for protecting the money raised need to be put in place.

## What must trustees do? **L**

Trustees must:

- Ensure that the levels of any payments required from followers are not unduly restrictive: many charities advancing religion ask their followers to make regular payments to the organisation (often through the Gift Aid Scheme) sometimes based proportionately on their income. This is a well established practice and can be voluntary or mandatory. Where financial contribution is used in practice (if not officially) levels of payment should not be such that they restrict who can join the charity or benefit from it.
- Ensure that any appeal properly describes what donations from the public will be used for.
- Ensure that any local groups or branches attached to a charity that undertake fundraising activities on behalf of the main charity are clear that such fundraising raises money for the main charity. Full disclosure of the income and expenditure must be made to the charity for approval by the trustees and inclusion in the accounts.
- Pay all funds raised into a bank account in the charity's name before deduction of any expenses where trustees have given permission for people to raise money on their behalf. This might be someone undertaking a sponsored event or the employment of a fundraiser. However on occasion individuals not employed or contracted by the charity may raise funds and remit them to the charity after deducting their expenses.
- Exercise proper control of funds where people are raising money on their behalf or where they employ a professional fundraiser.
- Draw up a contract where professional fundraisers are employed as agents for the charity. Professional fundraisers are subject to regulations in the Charities Act that require charities to have a fundraising agreement with the professional fundraiser or commercial participator prior to fundraising.
- Ensure that funds are spent (or earmarked) for the purposes for which they were raised.

## What about good practice?

Trustees should:

- Ensure that, where cash collections are taken in a place of worship or similar settings, money is counted as soon as possible after the collection is completed and any collection boxes are regularly opened. In each case, the count should take place in the presence of at least two people, who are if possible unrelated to each other, authorised by the trustees for this duty.
- Be aware of good fundraising practices such as the Institute of Fundraising's Codes of Fundraising Practice.
- Insist on approving both the fundraising methods and any appeal literature that will be used on their behalf.
- Think carefully about the wording that explains the purpose of any fundraising appeal. Where an appeal has a specific purpose, such as to acquire, build or repair a place of worship, it is helpful to specify how the funds can be applied if the main purpose of the appeal fails or if there are any surplus funds left over (for example, the general purposes of the charity).

- Be prepared to be open and honest about the costs of such an appeal, if asked.
- Explain in their Annual Report the effectiveness of fundraising.

You can find **more information** about charity trustees' legal responsibilities in relation to fundraising and general advice on effective fundraising in our publication *Charities and Fundraising (CC20)*. Our research report *Charities and Commercial Partners (RS2)* focuses on the relationship that exists when a charity and a commercial company enter into an agreement either to raise funds for the charity or to raise its profile. Both are available on our website.

### **Making the most of your donations**

Many religious charities receive significant amounts of donations in cash. While some religious charities are very effective in maximising their Gift Aid tax refunds, others miss the opportunity to encourage wider take up of the scheme amongst their donors which would enable them to get the most from each donation.

Some individuals and faith communities consider that their doctrinal/spiritual approach to giving does not work well with the Gift Aid Scheme. Where this is not the case, the following summary provided by Mohammed Amin, tax partner at a leading accountancy firm, could help charities to get extra money on their cash donations.

The key requirement is to be able to connect the actual donation received to an individual donor, and to have a completed Gift Aid declaration from that donor. To make this feasible for cash donations, the charity could maintain a stock of envelopes, pre-printed with the following information on the outside of the envelope:

- the name and address of the charity;
- a space to write the amount of money being put into the envelope;
- a space for the donor to write his or her name and address;
- a Gift Aid declaration; and
- a space for the donor to sign and date the envelope.

For very small donations, the donor and the charity might not want to bother.

However, even a £10 note given in cash is worth £2.50 in Gift Aid tax refund to the charity, along with a further 30p refund under the transitional relief for donations before 5 April 2011. The amounts of these refunds easily justify the cost of preparing the pre-printed envelopes and asking donors to take the time to write their name and address and sign the declaration.

No specific wording is prescribed for a Gift Aid declaration, but any declaration needs to comply with the statutory rules. The suggested wording below is adapted from a model declaration published by HMRC:

"Please treat the enclosed gift as a Gift Aid donation. I recognise that I must pay an amount of Income Tax and/or Capital Gains Tax for this tax year that is at least equal to the amount of tax that the charity will reclaim on this gift."

As the envelope will be used for a single cash gift, it appears inappropriate to use it to collect a Gift Aid declaration that is intended to have continuing effect.

HMRC have published extensive guidance on Gift Aid on their website at [www.hmrc.gov.uk/charities/gift\\_aid](http://www.hmrc.gov.uk/charities/gift_aid)

This piece does not constitute professional advice. You may need further advice from your charity's financial adviser.

### What duties do trustees have towards charity property? **L**

- Trustees should ensure that the way the charity is administered is not open to abuse by unscrupulous associates or employees, and that their systems of **internal financial control** are rigorous and constantly maintained.
- If the charity owns **land or buildings**, trustees need to know on a continuing basis what condition it is in, that it is being properly used, and that adequate insurance is in place.
- Trustees must ensure that all **income due** to the charity is received and that all tax and rating relief due is claimed.
- We recommend that **surplus cash** is deposited.
- Trustees need to ensure that property which is **permanent endowment** is used in a way that produces enough money for expenditure while at the same time safeguarding the value of the investment. Where they are satisfied that it would be more effective and in the charity's interest to cover the cost of a project by spending permanent endowment as well as income, a charity's trustees can resolve to do so if they comply with certain conditions.
- Trustees must follow any relevant clause in the charity's governing document that specifies who is authorised to sign cheques. If there is no provision in the governing document which relates to the operation of **bank accounts**, the bank mandate must specify at least two trustees as signatories, unless the trustees can reasonably claim that it is necessary for employees to sign cheques to allow the charity to operate.

You can find **more information** about the basic internal financial controls which trustees need to consider in our publication [Internal Financial Controls for Charities \(CC8\)](#), which includes [guidance on electronic banking](#). Other relevant guidance can be found in [Charities and Insurance \(CC49\)](#) and in [Permanent Endowment: What is it and when can it be spent?](#) The Commission also produces [guidance on charities and investment](#) and [dealing with charity land by way of sale, lease or mortgage](#).

## D9. Transferring funds/operating overseas

### Can charities be set up to support an organisation outside the United Kingdom?

If an organisation is set up to raise funds for a specified organisation in another country, it may or may not be charitable.

If such an organisation wishes to be a charity it should clearly demonstrate that:

- it has exclusively charitable objects;
- its trustees have control over how its funds will be used which must be for its purposes; and
- the trustees are responsible for the selection of beneficiaries and/or projects to support.

### Can a charity be set up to benefit a community in another country?

Many communities living in England and Wales may wish to assist a community or region in another country with which they may have family ties or other close links. To be charitable, such organisations must be set up for purposes recognised as charitable in this country.

### **Overseas money - using non-traditional banking methods**

Some charities work in environments where the use of one or more of the variety of non-traditional banking methods is common. These methods include the use of money transfer facilities to transfer funds (in the high street or via the internet), hawala banking (used in Muslim communities), and chitty banking (used in Hindi communities). We recognise that charities will need to use these methods. They are however more inherently risky than traditional banking methods and therefore trustees need to ensure that these risks are mitigated by putting controls in place.

All overseas money transfers and transfers of goods should be fully documented, with that documentation retained in the UK as part of the accounting records. Such documentation should include the names of the intermediar(y)(ies), the beneficiary, the commission paid, the gross and net value of the transactions and the countries of transaction. In this way, the trustees will be able to provide a clear audit trail to satisfy the public that the charity's funds are being used appropriately.

Other issues such as managing risk, protecting charity funds held in other countries, and how charities working overseas should assess, monitor and evaluate their work are covered in our publication [Charities Working Internationally](#) which is available on our website.

## E. Further information and advice

There are many resources that charity trustees can use to help them carry out their duties. This is not a definitive list of all the sources of information available, but it offers a good overview and a useful starting point. We encourage trustees to make use of the wide range of organisations that can help them run their charity as effectively as possible. You can find details of other sources of information in 'Useful links' on the home page of our website.

### **The InterFaith Network for the UK**

The Inter Faith Network for the UK was founded in 1987 to promote good relations between people of different faiths in this country. Its member organisations include representative bodies from the Baha'i; Buddhist; Christian; Hindu; Jain; Jewish; Muslim; Sikh; and Zoroastrian communities; national and local inter faith bodies; and academic institutions and educational bodies concerned with inter faith issues. **The Network's website includes a list of Faith Community Representative Bodies.**

8A Lower Grosvenor Place  
London  
SW1W 0EN

Tel: 020 7931 7766

Fax: 0079317722

Email: [ifnet@interfaith.org.uk](mailto:ifnet@interfaith.org.uk)

Website: [www.interfaith.org.uk](http://www.interfaith.org.uk)

### **British Association of Settlements and Social Action Centres (bassac)**

A membership network of multi-purpose community organisations. Bassac represents its members at a national level and offers them strategic support.

bassac  
33 Corsham Street  
London N1 6DR

Tel: 0845 241 0375

Fax: 0845 241 0376

Email: [info@bassac.org.uk](mailto:info@bassac.org.uk)

Website: [www.bassac.org.uk](http://www.bassac.org.uk)

### **CEDR (Centre for Effective Dispute Resolution)**

[www.cedr.co.uk/](http://www.cedr.co.uk/)

CEDR (Centre for Effective Dispute Resolution) and the NCVO (National Council for Voluntary Organisations) run a joint scheme which is funded by the Home Office to raise awareness of mediation, through training events, seminars, etc. and also offers a discounted mediation service for charities.

### **Charity Trustee Networks (CTN)**

Offers trustees mutual support by encouraging and developing self-help trustee network groups providing consultancy and mentoring.

Charity Trustee Networks

2nd Floor

The Guildford Institute

Ward Street

Guildford

GU1 4LH

Tel: 01483 230280

Fax: 01483 303932

Email: [info@trusteenet.org.uk](mailto:info@trusteenet.org.uk)

Website: [www.trusteenet.org.uk](http://www.trusteenet.org.uk)

### **Charities Aid Foundation (CAF)**

Provides services to facilitate tax-efficient giving, and offers covenant administration services. Carries out research and publishes information about voluntary sector funding.

Charities Aid Foundation

25 Kings Hill Avenue

Kings Hill

West Malling

Kent ME19 4TA

Tel: 01732 520 000

Fax: 01732 520 001

Email: [enquiries@cafonline.org](mailto:enquiries@cafonline.org)

Website: [www.cafonline.org.uk](http://www.cafonline.org.uk)

## **Community Matters**

Community Matters is the nationwide federation for community associations and similar organisations. It supports and develops the capacity of community organisations and represents them at a national level.

Community Matters  
12-20 Baron Street  
London N1 9LL

Tel: 020 7837 7887

Fax: 020 7278 9253

Email: [communitymatters@communitymatters.org.uk](mailto:communitymatters@communitymatters.org.uk)

Website: [www.communitymatters.org.uk](http://www.communitymatters.org.uk)

## **Companies House**

The incorporation authority for limited companies. Also runs seminars for newly appointed directors and company secretaries.

Companies House  
Crown Way  
Maindy  
Cardiff CF14 3UZ

Tel: 0303 1234 500

Fax: 029 2038 0900

Email: [enquiries@companies-house.gov.uk](mailto:enquiries@companies-house.gov.uk)

Website: [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

## **County Voluntary Councils in Wales (CVCs)**

The role of the County Voluntary Councils is to provide advice and information to local voluntary organisations on any issue that may affect them. They support voluntary action by supporting volunteering, advising on good practice and providing information on funding sources and a range of other issues. They also represent the voluntary sector on cross-sector partnerships. Contact details for all CVCs can be found on the Wales Council for Voluntary Action (WCVA) website (for details [see below](#)).

### **Directory of Social Change (DSC)**

The Directory of Social Change is an independent source of information and support to the voluntary sector. It provides practical training courses, conferences and seminars and publishes reference guides, handbooks and journals.

Directory of Social Change  
24 Stephenson Way  
London NW1 2DP

Tel: 020 7391 4800

Fax: 020 7391 4808

General Enquiries: 08450 77 77 07

Email: [enquiries@dsc.org.uk](mailto:enquiries@dsc.org.uk)

Website: [www.dsc.org.uk](http://www.dsc.org.uk)

### **The Institute of Chartered Secretaries and Administrators (ICSA)**

The professional body for chartered secretaries. Produces best practice guides and guidance. Also assists charities looking for new trustees.

ICSA  
16 Park Crescent  
London W1B 1AH

Tel: 020 7580 4741

Fax: 020 7323 1132

Email: [info@icsa.co.uk](mailto:info@icsa.co.uk)

Website: [www.icsa.org.uk](http://www.icsa.org.uk)

### **Institute of Fundraising**

The professional body which represents and supports fundraisers. The Institute works to promote the highest standards in fundraising practice and management.

Institute of Fundraising  
Park Place  
12 Lawn Lane  
London SW8 1UD

Tel: 020 7840 1000

Fax: 020 7840 1001

Email: [enquiries@institute-of-fundraising.org.uk](mailto:enquiries@institute-of-fundraising.org.uk)

Website: [www.institute-of-fundraising.org.uk](http://www.institute-of-fundraising.org.uk)

### **Grants for Listed Buildings used as Places of Worship**

[www.lpwscheme.org.uk](http://www.lpwscheme.org.uk)

Information about government grants to help with the VAT costs of repairing and maintaining listed buildings which are used primarily as places of worship.

### **National Association for Voluntary and Community Action (NAVCA)**

Local charities can use the NAVCA website to find their nearest Council for Voluntary Service (CVS). These Councils provide support and training for local voluntary organisations on many practical issues, including management issues, IT and volunteering.

NAVCA

The Tower

2 Furnival Square

Sheffield S1 4QL

Tel: 0114 278 6636

Fax: 0114 278 7004

Email: [navca@navca.org.uk](mailto:navca@navca.org.uk)

Website: [www.navca.org.uk](http://www.navca.org.uk)

### **The National Council for Voluntary Organisations (NCVO)**

Produces a wide range of information and support services for those working in the voluntary sector, including a publication on inducting and supporting trustees.

The National Council for Voluntary Organisations

Regent's Wharf

8 All Saints Street

London N1 9RL

Tel: 020 7713 6161

Fax: 020 7713 6300

Freephone: 0800 2798 798

Email: [ncvo@ncvo-vol.org.uk](mailto:ncvo@ncvo-vol.org.uk)

Website: [www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk)

### **Wales Council for Voluntary Action (WCVA)**

The voice of the voluntary sector in Wales. It represents the interests of, and campaigns for, voluntary organisations, volunteers and communities in Wales. WCVA provides a comprehensive range of information, consultancy, funding, management and training services. Charities can use the WCVA website to find their nearest County Voluntary Council (CVC).

Wales Council for Voluntary Action

Baltic House

Mount Stuart Square

Cardiff Bay

Cardiff CF10 5FH

Helpline: 0800 2888 329

Fax: 029 2043 1701

Email: [help@wcva.org.uk](mailto:help@wcva.org.uk)

Website: [www.wcva.org.uk](http://www.wcva.org.uk)



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