



Guidance

Charity governance, finance and resilience: 15 questions trustees should ask

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Key messages

In **'The essential trustee: what you need to know, what you need to do (CC3)'** the Charity Commission sets out the 6 key duties for charity trustees and what these cover - they are all relevant but 3 are particularly so when using this checklist:

- act in the interests of their charity and its beneficiaries
- protect and safeguard the assets of their charity
- act with reasonable care and skill

To deliver against these duties, charity trustees need to be able to identify the critical issues - the charity's purposes and plans, its solvency, its resilience and quality of governance - and to be able to review these at regular intervals. The Commission has designed these 15 questions to help charity trustees carry out such a review and decide what they need to focus on.

The Commission has also included links to guidance that can help trustees access further information on a particular issue.

Of course, what will apply will depend on the size, type and activities of the charity.

Strategy: a plan of action designed to achieve a long-term overall aim

1. What effect is the current economic climate having on our charity and its activities?

For example:

- are we focusing on the right activities, or are we doing things that are over and above our core charitable aims? if we are, should we stop doing those things?
- will our funding support our strategic plans? if we are relying on a single source of income (such as grant funding or investment income), should we look at other sources of funding?
- how do we think the political, economic, social and technological environment in which we work is going to change and is this reflected in our strategic planning?
- does this environment present us with any immediate challenges or opportunities? for example:
 - recruiting volunteers including those with different skills
 - collaborating with others to provide skills, accommodation, equipment or increased buying power
 - re-negotiating contracts
 - bidding for public service delivery contracts
 - taking advantage of on-line services - for example banking
- are there particular risks we should consider? for example:
 - increased (or reduced) demand for services, or changes in the type of services needed
 - reduced income from investments and savings
 - funding uncertainty
- should we think about whether we want to, or are able to, continue operating? could closing the charity and passing its resources to a similar charity be a better use of scarce funding and resources?

Find out more:

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

Managing charity assets and resources: an overview for trustees (CC25)

Making the most of our finances

2. Are we financially strong enough to continue to provide services for our beneficiaries?

For example:

- do we have up to date information about our charity's finances, cash flow and debts/obligations? the financial information provided at each trustee meeting should typically include:
 - the latest management accounts
 - a comparison of budget to actual figures
 - an explanation for variances between forecasts and what actually happened
 - details of cash flow and closing bank balances
 - do we have access to the right type of financial/professional advice?
- based on the information we have, can we:
 - tell what might happen to our future income?
 - protect (or increase) our current income?
 - continue our programme of activities for the foreseeable future?
 - make our money go further, for example by identifying costs we can cut?
 - fulfil our contractual obligations?
 - meet our financial commitments as they fall due?
 - tell if the charity is facing potential insolvency?
- are we clear about what core activities we want to sustain under any circumstances?
- are we clear about the charity's financial prospects for the longer term?
- are we confident that we will be able to identify and address potential insolvency in good time?
- have we planned for an orderly wind up of the charity's affairs if the charity is no longer viable?

Find out more:

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

3. Do we know what impact the social and/or economic climate is having on our donors and support for our charity?

For example:

- how secure is our existing funding, for example contracts from other bodies for service delivery, statutory funding or grants from other bodies, for the foreseeable future?
- is it possible to diversify or broaden our sources of income? for example, there are new opportunities for funding such as organisations, charities and investors that can provide loans and other support to charities as a social investment
- do we need to rethink our fundraising strategy - is it in line with current guidance and good practice?
- have we considered other factors that might influence our supporters? reputational issues and any of a charity's policies can affect the support of its donors, for example the way the charity invests its money or the way it fundraises

Find out more:

Charity fundraising: a guide to trustee duties (CC20)

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

Charities and public service delivery: an introduction (CC37)

4. What is our policy on reserves?

For example:

- do we have a clear, published reserves policy that meets the needs of our charity?
- what will the consequences be for our charity's beneficiaries (in particular vulnerable beneficiaries) if the charity has no financial reserves to enable it to continue in the event of loss of regular income?
- does our policy:
 - fully justify and clearly explain keeping or not keeping reserves?
 - identify and plan for the maintenance of essential services for beneficiaries?
 - reflect the risks of an unplanned closure, our spending commitments and our potential liabilities and financial forecasts?
 - help to address the risks of unplanned closure on our beneficiaries, staff and volunteers?
- do we know what the level of our reserves is now? we need to know what assets are freely available to spend and not already set aside or designated for particular purposes
- have we considered:
 - new priorities and needs (for example an increased demand for our services or a change in our activities) which have arisen because of changes in our financial and social environment?
 - the level of reserves needed to meet new priorities and needs, a longer term strategy to replenish reserves, or spending them in their entirety?
 - using reserves to restructure our work?

Find out more:

Charities reserves: building resilience (CC19)

Charity reserves and defined benefit pension schemes

Charity reporting and accounting: the essentials (CC15b)

5. Are we satisfied with our banking arrangements and our current and future investment policy?

For example:

- how often do we review our banking arrangements?
- does our bank offer the range of services that we need? for example:
 - online banking with suitable security measures
 - the access to cash on deposit that we need
 - a loan facility
- have we considered the costs and benefits of our current and deposit accounts to ensure competitive interest rates?
- are our deposits protected by the Financial Services Compensation Scheme?
- have we looked at the services offered by other banks with a view to switching our provider?
- have we recently reviewed our investment policy to ensure that it reflects and can meet our current and future needs?
- have we arranged for regular investment policy reviews - sudden changes in the economic climate might mean they should take place more regularly?
- have we reviewed the diversity, suitability and risks associated with our spread of investments?
- have we thought about whether an ethical investment policy would be right for our charity?
- could social investment be an effective way to meet our aims?

Find out more:

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

Banking for charities - Charity Finance Group

6. Have we reviewed our contractual commitments?

For example:

- do we know exactly what our contractual commitments are - they might include office leases, rental agreements, equipment hire?
- could we collaborate with other organisations to save costs on essential support or back office expenses?
- do we understand the obligations of any existing or new contracts - there might insurance requirements or penalty clauses for non delivery?
- are these obligations manageable for our charity now and for the remainder of the contract?
- how do we terminate our contracts if necessary?
- should we review any contracts we have with fundraisers for value for money and reputational risks?
- if we cannot meet the terms of a contract, are we aware of the financial and reputational risks we could face?

Find out more:

Charities and risk management (CC26)

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

7. Have we reviewed any contracts to deliver public services?

For example:

- do we understand all the obligations imposed on us by our existing contracts?
- are these obligations manageable in light of the charity's current and probable future situation?
- can we terminate any contracts we are party to if necessary?
- if we cannot meet the terms of a contract are we aware of the financial penalties and reputational risks we could face?
- have we planned for what happens when the contract ends?
- are we fully aware of the risks and obligations attached to taking on new public service delivery contracts?
- have we explored the different ways in which we can achieve our charity's aims as an alternative to entering into a new contract?

Find out more:

Charities and public service delivery: an introduction (CC37)

8. If we have a pension scheme, have we reviewed it recently?

For example:

- do we know the risks and liabilities attached to our charity's pension scheme?
- what plans do we have to manage those risks and liabilities?
- do we make it clear in our financial reporting what our pension liabilities are and what we are doing to manage any risk to our charity?
- do we need to take specialist advice?

Find out more:

Charity reserves and defined benefit pension schemes

9. How can we make best use of any permanent endowment investments we hold?

For example:

- do we know whether any of our funds are permanent endowment and can only be invested to produce income for our charity or used as specified by the donor?
- do we think that the interests of our charity and its beneficiaries would be better served by making use of the greater flexibility to spend permanent endowment offered by the Charities Act?
- can we take advantage of the power to use a total return approach to investment (this is usually only appropriate for larger permanently endowed charities)?

Find out more:

Permanent endowment: rules for charities

Total return investment for permanently endowed charities

Governance

10. Are we an effective trustee body?

For example:

- do we understand:
 - the charity's aims as set out in its governing document?
 - what our charity will do, and what we want it to achieve?
 - that all of the charity's activities are intended to further or support its purposes?
 - how the charity benefits the public by carrying out its purposes?
- have we read 'The essential trustee (CC3)'?
- have we recently reviewed our performance as a trustee body?

- are we using our time together as a board efficiently and effectively? do we read the accounts, reports and other background material before the meeting?
- have we recently reviewed the skills, knowledge and experience we have as a trustee body? have our needs changed?
- are we aware of the importance of effective communication and negotiation with those with an interest in our charity - these could be donors, supporters, beneficiaries, staff and volunteers?
- do we have sufficient oversight and knowledge of the activities of external people and organisations acting on our behalf?
- do we have access to the guidance we need to ensure that our decisions are made in the best interests of our charity and its beneficiaries?
- do we know what, if any, conflicts of interests might affect our decision making?
- do we need to monitor the charity's affairs more closely, for example by meeting more frequently?
- do we feel able to take difficult or unpopular decisions if needed, for example about:
 - ending or changing some activities?
 - changing staffing levels?
 - changing staff benefits?
 - merging with another charity?
 - winding up the charity?

Find out more:

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

11. Do we have adequate safeguards in place to prevent fraud?

For example:

- do we have proper financial controls and procedures in place to prevent fraud?
- do they need reviewing and updating, to take account of any increased risk of fraud as a result of changes in the economic and technological environment the charity operates in? an example might be the greater risk of computer fraud
- are there controls and procedures in place to reduce the risk of misuse of personal data?

Find out more:

Charity money: how to keep it safe

Protecting charities from harm: compliance toolkit

Charity fraud: a guide for the trustees and managers of charities

Making best use of resources

12. Are we making the best use of the financial benefits we have as a charity?

For example:

- do we understand how to make the most of Gift Aid?
- are we making the most of our potential tax relief as a charity?
- are we aware of any financial help available for charities from other bodies - they may be governmental, other organisations or charities? if yes, have we considered whether it is appropriate for our charity, and whether to apply for it?
- do we know where to go for information on how to take advantage of the growing interest in social investment into charities?
- have we considered whether any trading activities should be hived off to a subsidiary trading company in order to avoid tax liabilities?

Find out more:

Claiming Gift Aid as a charity or CASC

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

Charity trading: selling goods and services

13. Are we making the best use of our staff and volunteers?

For example:

- are we aware of our obligations as employers and do we know where to go for further information?
- do we have a safeguarding policy that clearly lets trustees, staff, volunteers and beneficiaries know what their roles, rights and responsibilities are?
- do our staff have the right mix of skills and experience that our charity needs to be effective?
- could we introduce more flexible patterns of working in order to focus our resources where most needed?
- do we still need the same type and number of staff? are there better opportunities to recruit in a competitive job market?
- are we making the best use of any interest in volunteering for charities?
- are we proactive in attracting potential volunteers and have we reviewed the way we support and use them?

Find out more:

Advisory, Conciliation and Arbitration Service (ACAS)

Workforce - NCVO

14. Have we considered collaborating with other charities?

For example:

- are there any of our activities that could be more effective by working with others, such as sharing equipment, sharing staff, running joint training sessions, purchasing or sharing back office services?
- do we know how to identify other charities with similar purposes operating in our area that we could contact to discuss possible collaboration or joint working?
- should we consider the possibility of a formal merger with another charity or charities in the interests of our beneficiaries? this will be important if your charity wishes to wind up or is facing financial difficulties

Find out more:

Search the charity register

Collaborative working and mergers: an introduction (CC34)

15. Are we making the best use we can of our property?

For example:

- have we recently reviewed how we use any assets, such as buildings or equipment we own or rent? could we use them differently, share them with others, re-negotiate terms or sell them?
- have we reviewed the costs and benefits of the way we hold property? for example, should we buy, rent or lease?
- have we reviewed any insurance policies we hold - can we get a better deal?
- what will any change in use of our property mean in terms of insurance?

Find out more:

Charity land and property

Charities and insurance (CC49)