Cianna's Smile

Draft Financial Policy

Based on Charity Commission Guidelines

https://www.gov.uk/government/publications/managing-charity-assets-and-resources-cc25/managing-charity-assets-and-resources

Introduction

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

As trustees, we properly supervise the charity's resources and satisfy ourselves that we have:

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

Where appropriate, we delegate tasks to volunteers but, whatever the arrangements, proper oversight and monitoring is exercised.

In carrying out our duties, as Trustees we recognise we have legal responsibilities:

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

Financial management

As trustees, we:

- agree and regularly review our plans for achieving the charity's aims and the finances needed to support them;

- agree where funding will come from, and what happens if it stops – including planning for how to reduce or avoid this type of risk by, for example, having several sources of funding and having a reserves policy;
- know which funds are restricted - these funds must only be used in the way the donor specified;
- agree, establish and review financial policies and procedures as regularly as appropriate, and ensure that staff and volunteers (where used) are involved and understand the controls in place;
- set an annual budget which identifies the charity's aims and objectives and how to achieve them - including the cost of activities and how they will be resourced
- monitor financial performance by comparing on a regular basis actual income and expenditure against the annual budget; including project reports/financial reviews as a standing item on the agenda for Trustees' meetings;
- budget for the full costs of providing any service including when applying for grants;
- preparing annual accounts and a trustees' annual report in accordance with the requirements and standards that apply to the size and legal structure of our charity

Identifying and managing risk

As trustees we regularly assess and review the risks we face in all areas of our work and plan for the management of those risks. This includes applying a management process to enable the charity to look at how its assets and resources can be protected and put to best use.

This means that we as trustees:

- create and review a risk management policy that covers all aspects of the running of the charity - this sets out the processes that the charity will use to identify the risks and how it will manage them;
- make a risk management statement in our annual report in accordance with the regulations and as a matter of good practice;
- set out the different roles of trustees, staff and volunteers in risk assessment and management;
- establish a framework to help identify day-to-day risks – including setting out what decisions can be dealt with or accepted by others, but still need to be referred to trustees;
- review all risks identified and how they are to be managed and responding to any changes in the financial climate and legislation;
- establish a disaster recovery plan to enable the charity to resume normal (or near normal as possible) service to its beneficiaries if a serious incident prevents it from carrying out its usual activities.

Internal financial controls

All trustees have a duty to protect their charity's assets and resources and to make sure they are only used to further the charity's aims. To the extent possible bearing in mind the charity's size, we have introduced robust internal financial controls to protect funds from misuse. This will show potential donors and beneficiaries that the charity manages its property efficiently.

This means the trustees:

- look carefully at areas of high risk such as controls over payroll systems and ordering of goods and services (where applicable) - areas of high risk will vary and will depend on the charity's activities, structure and risk assessment
- introduce policies and processes to protect their charity's assets and resources - all staff and volunteers are trained in their roles and duties
- base internal control systems on the charity's organisational plan - this shows areas of responsibility for individuals and groups, and lines of authority and reporting
- ensure that no trustee or employee signs cheques or authorises payments, including re-imbursements, to themselves
- recognise that robust financial controls will help to protect them against potential personal liability in the event of any loss to the charity through misuse of its funds
- carry out appropriate checks when making grants to or allowing the use of their charity's property by another organisation. Trustees ensure (as far as is possible) that these assets and resources will be used only to carry out the charity's aims
- ensure any delegation of checks and controls to staff or volunteers is clearly documented and understood by all parties. Trustees receive regular written reports on the use of any delegated powers
- consider using new technology to simplify record keeping, accounting and transaction processes

- have access to independent professional advice

Charity reserves

The charity needs to be able to meet unexpected expenses and take advantage of change and opportunities for development when they arise. This is achieved by setting aside income, when the charity can afford it, as a reserve earmarked for particular uses rather than used immediately for the charity's aims.

The trustees regularly assess the appropriate level of reserves to be held in order to avoid putting the charity's solvency, future development or activities at risk.

This means the trustees:

- consider whether the charity needs to keep reserves – the trustees' primary consideration is the wellbeing of the beneficiaries it has been set up to help
- have a reserves policy which explains the levels of reserves to be kept and how they can be used
- review their reserves policy on a regular basis to take into account changing financial circumstances and new operating and financial conditions
- comply with the annual reporting requirements to set out the charity's reserves policy in order to show the level of reserves the charity holds and to explain why it needs to retain them at that level

- identify which of the charity's funds have restrictions on their use, i.e. reserve funds that are freely available to spend are distinguished from funds that may have restrictions on their use set by their donors
- consider whether and how reserve funds should be invested
- plan for future development and sustainability when looking at levels of reserves, i.e. designating funds for use on particular future projects if appropriate as a way of setting aside and building up funds separated from the charity's general reserves

Managing financial difficulties and insolvency

The trustees are aware that they need to be alert to the possibility that the charity may face financial difficulties in the future. In order that trustees are aware that this point has been reached, and in order to take appropriate timely action, the trustees ensure that they:

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

Income generation

(a) Financial investment

Where the trustees make investments, they are made in the best interests of the charity.

This means the trustees:

- agree the purpose of the investment assets, the level of risk and the investment time horizon that is appropriate for the charity
- comply with any restrictions or additions to their general powers of investment that are contained in the charity's governing document

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

(b) Fundraising

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

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

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

Trustees ensure that:

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

(c) Trading

In any situations where the charity establishes a trading activity, the trustees:

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

Other resources

(a) Staff and volunteers

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

This means the trustees:

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

(b) Charities and insurance

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

This means the trustees:

- find out when to insure the charity, and take out the appropriate cover including employer's liability insurance and motor insurance as appropriate
- are aware of the power in the Trustee Act 2000 which enables trustees to insure any property which is owned by their charity against the risk of loss or damage due to any event and pay the premiums out of the charity's funds
- are aware of any requirement in the charity's governing document for its trustees to buy certain types of insurance cover, apart from those types that are required by law
- identify risks to the charity which can either be accepted, managed, stopped or passed to an insurer (ie buying an insurance policy)

- treat volunteers in a similar way to employees for insurance purposes and make sure the charity's insurance covers our volunteers. The trustees will consider how the insurer defines the term 'volunteer' and keep proper records of the volunteers working for the charity that fall within that definition
- consider independent professional advice from a reputable broker that has an understanding of charities' insurance needs
- consider the advantages of tailor-made charity insurance packages – for example, for village halls, small community groups, certain types of events and other fundraising activities

(c) Buying and selling land

Charity trustees must act in accordance with their legal duties when buying or selling land to carry out the charity's aims or to be held as an investment. the charity also ensures that it safeguards its land.

This means the trustees:

- must comply with the powers the charity has to buy, sell, lease or dispose of its land, either to use for its aims or as an investment. The powers it has vary according to its legal structure and sometimes by provisions in the charity's governing document
- must take the appropriate professional advice when considering buying or selling land
- must comply with their duty of care when investing in land
- must comply with the requirements of the law when disposing of any of its land as the law requires that these transactions are properly managed in the charity's interests
- must obtain the commission's consent where a disposal of land is to a connected person, that is persons including trustees and their close relatives, the donor of the land and their close relatives, a charity's trading subsidiary and employees and officers of the charity
- read the Commission's guidance if they need consent, take any appropriate advice and are able to show why the transaction is in the best interests of the charity
- keep a full record of the land the charity owns and if necessary ensuring the land is registered with the Land Registry. Where appropriate, the trustees will consider transferring land to the Official Custodian for Charities
- monitor the condition of the charity's land and how it is being used by holding regular rent reviews of investment land and conduting a regular cyclical maintenance programme
- seek discretionary rate relief from the local authority, if appropriate

(d) Trustee expenses and payments

The charity can reimburse its trustees for their legitimate expenses. The Charities Act also sets out certain circumstances in which a charity can pay its trustees for the provision of goods and services.

This means the trustees:

- are aware of any provisions in the charity's governing document that either authorise or prohibit payments to trustees

- ensure that the payment of a trustee to be a trustee or a paid member of staff (where this in the charity's interests) will need a specific authority either from its governing document, the Commission or, if necessary, from the courts
- know that trustees are entitled to have any legitimate expenses they incur on the charity's behalf paid from its funds. The charity has a written policy in place which sets out what claims are covered and the procedures for claiming and approving expenses for all staff and trustees
- know how and in what circumstances they can use the powers in the Charities Act to pay trustees for the provision of goods and services, taking account of the charity's governing document and provisions of the Charities Act
- if they need the Commission's consent, trustees will read the Commission's guidance, take any appropriate advice and be able to show why the proposal is in the best interests of the charity
- can show how the performance of the individuals concerned will be monitored and assessed
- are open and transparent about any decision to pay trustees and be prepared to justify it if publicly challenged
- disclose any payments made to trustees in the charity's accounts in accordance with Charity SORP guidelines. This is a legal requirement for companies and larger charities but will enable charities of all sizes to be open and transparent (legal requirement)
- have clearly defined procedures for identifying and managing conflicts of interest that may arise when considering the payment of a trustee (or a person connected to that trustee)
- review regularly the performance of each trustee, particularly important where a trustee is receiving a payment from the charity

Appendix

Technical terms relating to the Financial Policy

The Charities Act means the Charities Act 2011.

Trustee Act means the Trustee Act 2000.

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

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

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

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

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

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

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

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

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

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

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

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

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