

**big board talk**

...the conversation  
all charities need to have

# **The economic downturn**

## 15 questions trustees need to ask



# Introduction

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The Charity Commission is the independent regulator of charities in England and Wales. Our aim is to provide the best possible regulation of charities in order to increase their effectiveness and public trust and confidence in the work they do.

In light of the current recession, we have produced a practical tool, in the form of this checklist, for trustees to use. We have designed the checklist to be suitable for all charities to use. The 15 main questions will not all be relevant to every charity – it will depend on a charity's size and how it operates. The checklist reflects a good practice approach that charities should use when regularly reviewing the way they operate, and this approach becomes especially important during an economic downturn.

The checklist is a template which can be used by different types and sizes of charity, and adapted to suit particular circumstances. It is intended to help structure a discussion as an agenda item at a trustee meeting, away day discussion or planning meeting. It will also help the trustees to develop a plan and timetable for action. The Charity Commission strongly encourages trustee boards of all charities to use this checklist.

If your board carefully works through the areas in this checklist that relate to your charity, it will help to demonstrate that your trustees are acting appropriately in the current circumstances.

To help focus the discussion the checklist is organised into four broad areas:

- Strategy – opportunities and risks (A)
- Financial health (B)
- Governance (C)
- Making best use of resources (D)

Our guidance on various topics is signposted throughout the checklist and is available on our website [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk).

# Checklist

## A. Strategy – opportunities and risks

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### 1. What effect is the economic downturn having on our charity and its activities?

- What is the impact of the economic downturn on the environment in which we operate?
- How can we best reflect the downturn's possible implications in any scenario or forward planning that we do?
- Are we focussing on the right things, or have we drifted into activities that are over and above our core charitable purposes? If we have, is it justified?
- Are there opportunities of which we could take advantage? For example:
  - an increasing pool of volunteers, including those with different skills
  - cheaper accommodation or equipment costs
  - opportunities to re-negotiate contracts
- 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
  - funding uncertainty in some areas
- Is there a need for us to rethink whether we want to continue operating?

#### **For further information:**

Managing in a Downturn [www.cfdg.org.uk](http://www.cfdg.org.uk)

## B. Financial health

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### 2. Are we financially strong enough to sustain our operations?

- Do we have up to date information about our charity's finances, cash flow and debts/obligations?
- Do we have access to the right type of financial advice?
- Based on the information we have:
  - do we know what might happen to our future income?
  - can we protect (or increase) our current income?
  - can we continue our programme of activities for the foreseeable future?
  - can we make our money go further, for example by identifying costs we can cut?
  - can we fulfil our contractual obligations?
  - can we meet our financial commitments as they fall due?
  - are we financially solvent?
- Are we clear about the core activities we want to sustain under any circumstances?
- Are we clear about the prospects for the longer term?

#### **For further information:**

Managing financial difficulties and insolvency in charities (CC12)

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

- How secure is our funding, for example contracts from other bodies for service delivery, statutory funding or grants, for the foreseeable future?
- Is it possible to diversify or broaden our sources of income?
- Do we need to rethink our fundraising strategy?
- Are there new opportunities, or current approaches which need to change?

#### For further information:

Charities and Fundraising (CC20)

Introductory Pack on Funding and Finance - [www.ncvo-vol.uk](http://www.ncvo-vol.uk)

Institute of Fundraising – [www.institute-of-fundraising.org.uk](http://www.institute-of-fundraising.org.uk)

### 4. Do we have any reserves?

- Do we have a reserves policy? If not, why not?
- Do we know the level of our reserves?
- In what circumstances do we intend to use our reserves – is now the right time?
- Have we considered:
  - new priorities or needs which have arisen because of the economic downturn?
  - spending from our reserves in order to reduce the impact of the downturn on our beneficiaries?
  - a longer term strategy to replenish reserves, or spending them in their entirety?
  - using reserves to restructure our work ?

#### For further information:

Charities' Reserves (CC19)

Charity Reserves and Defined Benefit Pension Schemes [www.charity-commission.gov.uk/supportingcharities/pensions.asp](http://www.charity-commission.gov.uk/supportingcharities/pensions.asp)

Accounting and Reporting for Charities: Statement of Recommended Practice (SORP) [www.charity-commission.gov.uk/investigations/sorp/sorp05docs.asp](http://www.charity-commission.gov.uk/investigations/sorp/sorp05docs.asp)

### 5. Have we reviewed our banking arrangements and, where relevant, our investments?

- Have we recently reviewed our banking arrangements - for example, the willingness of our bank to lend money?
- What can we do about any reductions in the level of income generated by our investments?
- Have we revisited our investment policies, in the light of the economic downturn, to ensure that they are appropriate for current and future needs?
- Have we reviewed the diversity, suitability and risks associated with our spread of investments?

#### For further information:

Investment of Charitable Funds (CC14)

Understanding charitable investments: available from [www.cafonline.org](http://www.cafonline.org)

## 6. Have we reviewed our contractual commitments, for example office leases, rental agreements, equipment hire?

- Do we know what our contractual commitments are?
- Do we understand the obligations of any existing or new contracts?
- Are these obligations manageable in the current economic climate?
- Can we terminate any contracts we are party to if necessary?
- Should we review any contracts we have with fundraisers?
- If we cannot meet the terms of a contract are we aware of the financial and reputational risks we could face?

### For further information:

Charities and Risk Management - [www.charitycommission.gov.uk/investigations/charrisk.asp](http://www.charitycommission.gov.uk/investigations/charrisk.asp)

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

- Do we understand the obligations of any existing or new contracts?
- Are these obligations manageable in the current economic climate?
- 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 and reputational risks we could face?
- Have we planned for what happens when the contract ends?

### For further information:

Charities and Public Service Delivery (CC37)

Introductory Pack on Funding and Finance [www.ncvo-vol.org.uk/publications](http://www.ncvo-vol.org.uk/publications)

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

- 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?
- Should we get specialist advice?

### For further information:

Charity Reserves and Defined Benefit Pension Schemes [www.charity-commission.gov.uk/supportingcharities/pensions.asp](http://www.charity-commission.gov.uk/supportingcharities/pensions.asp)

Defined Benefit Pension Schemes – Questions and answers [www.charity-commission.gov.uk/supportingcharities/dpps.asp](http://www.charity-commission.gov.uk/supportingcharities/dpps.asp)

Alert to the risks in the downturn – statement by the Pensions Regulator [www.thepensionsregulator.gov.uk/whatsNew/pn09-04.aspx](http://www.thepensionsregulator.gov.uk/whatsNew/pn09-04.aspx)

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

- Have we thought about finding money for the charity's purposes by making use of the greater flexibility to spend permanent endowment offered by the Charities Act 2006?

### For further information:

Charities Act 2006: what trustees need to know [www.cabinetoffice.gov.uk/third\\_sector/law\\_and\\_regulation/charities\\_act\\_2006](http://www.cabinetoffice.gov.uk/third_sector/law_and_regulation/charities_act_2006)

Permanent Endowment (OG44) - [www.charity-commission.gov.uk/supportingcharities/ogs/index044.asp](http://www.charity-commission.gov.uk/supportingcharities/ogs/index044.asp)

## C. Governance

### 10. Are we an effective trustee body?

- Have we recently reviewed our performance as a trustee body?
- Have we recently reviewed the skills, knowledge and experience we have as a trustee body? Have the needs changed in the current circumstances?
- Are we aware of the importance of effective communication and negotiation with those with an interest in our charity, including our staff?
- Do we have the guidance we need to ensure that our decisions are made in the best interests of our charity and its beneficiaries?
- 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 on:
  - stopping some activities
  - staffing
  - staff benefits

### For further information:

Hallmarks of an Effective Charity (CC10)

The Essential Trustee (CC3)

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

- Do we have proper financial controls and procedures in place to prevent fraud?
- Do they need reviewing and updating, to take account of the increased risk of fraud as a result of the economic downturn?
- Are there controls and procedures in place to reduce the risk of misuse of personal data?

### For further information:

Internal Financial Controls (CC8)

Fraud Advisory Panel - [www.fraudadvisorypanel.org](http://www.fraudadvisorypanel.org)

Fraud in the Charitable Sector: report available on - [http://www.fraudadvisorypanel.org/newsite/pdf\\_show.php?id=104](http://www.fraudadvisorypanel.org/newsite/pdf_show.php?id=104)

## D. Making best use of resources

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

- 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 government financial help available for charities during the recession? If yes, have we considered whether it is appropriate for our charity, and whether to apply for it?

#### For further information:

Gift Aid - [www.hmrc.gov.uk/charities/gift-aid.htm](http://www.hmrc.gov.uk/charities/gift-aid.htm)

Charities and tax/trading - [www.hmrc.gov.uk/charities/news.htm](http://www.hmrc.gov.uk/charities/news.htm)

Trustees, trading and tax (CC35) [www.charity-commission.gov.uk/publications/cc35.asp](http://www.charity-commission.gov.uk/publications/cc35.asp)

Government Action Plan - [www.cabinetoffice.gov.uk/third\\_sector](http://www.cabinetoffice.gov.uk/third_sector)

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

- Are we aware of our obligations as employers and do we know where to go for further information?
- 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 need the same type and number of staff? Are there better opportunities to recruit in a more competitive job market?
- Do we think that there is more potential to give people an opportunity to volunteer for our charity in the current circumstances?
- Are we proactive in attracting potential volunteers and have we reviewed the way we support and use them?

#### For further information:

Good Employment Guide - UK Workforce hub [www.ukworkforcehub.org.uk/hr/good-employment-guide](http://www.ukworkforcehub.org.uk/hr/good-employment-guide)

ACAS [www.acas.org.uk](http://www.acas.org.uk)

Volunteering England - [www.volunteering.org.uk](http://www.volunteering.org.uk)

### 14. Have we considered collaborating with other charities?

- Are there activities that we think could be run more effectively by working with others, such as sharing equipment, sharing staff, running joint training sessions, 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?

#### For further information:

The Register of Charities: gives full details of all charities registered with the Charity Commission - [www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)

Collaborative working and merger resources - [www.charity-commission.gov.uk/enhancingcharities/cwmresources.asp](http://www.charity-commission.gov.uk/enhancingcharities/cwmresources.asp)

Collaborative Working and Mergers: An Introduction (CC34)

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

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

- Have we thought about 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?
- Is this a good time to buy property instead of renting it?

### For further information:

Disposing of Charity Land (CC28)

## To see the Charity Commission guidance mentioned above:

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View and/or print from our website [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk);

Order during opening hours – Monday to Friday 08.00-20.00 and 9.00-13.00 Saturdays by phoning  
**0845 300 0218** or Typetalk: **0845 300 0219**

Write to **Charity Commission Direct, PO Box 1227, Liverpool, L69 3UG**

## Other sources of information on addressing the economic downturn:

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Association of Chief Executives of Voluntary Organisations (ACEVO) [www.recessionsupport.org.uk](http://www.recessionsupport.org.uk)

Charity Finance Directors' Group (CFDG) [www.cfdg.org](http://www.cfdg.org)

National Association for Voluntary and Community Action (NAVCA) [www.navca.org.uk/localvs/recession/](http://www.navca.org.uk/localvs/recession/)

National Council for Voluntary Organisations (NCVO) [www.ncvo-vol.org.uk/topics.asp?id=11798](http://www.ncvo-vol.org.uk/topics.asp?id=11798)

Office of the Third Sector [www.cabinetoffice.gov.uk](http://www.cabinetoffice.gov.uk)

County Voluntary Councils in Wales [www.sustainablefundingcymru.org.uk/help/cvcs](http://www.sustainablefundingcymru.org.uk/help/cvcs)

Wales Council for Voluntary Action (WCVA) [www.wcva.org.uk](http://www.wcva.org.uk)