Smaller Charities that Mainly Invest Cash

Charity Investment Governance Principles

Who is this document for?

This document is for smaller charities which mainly keep money in a savings or deposit account. Although most people wouldn't refer to this as an 'investment', it does count as investing the charity's money. This document can be used by trustees, staff and individuals with positions of delegated responsibility (for example members of a Finance Committee or a Treasurer) to explore charity investment governance.

Using this document

The words in italics in this document are quotations from the Charity Commission's Investing charity money: guidance for trustees (CC14) which provides advice for all charities in England and Wales on the legal and regulatory expectations.

This document also has links to the Charity Investment Governance Principles (the Principles) which are intended to provide help to charities to tackle governance challenges in relation to investments. The Principles are not a legal or regulatory requirement and are intended to be complementary to both CC14 and the Charity Governance Code.

For smaller charities which only keep money in a savings or deposit account, this document may provide sufficient help to explore common governance challenges.

Charities with larger amounts of money in savings or deposit accounts, for example over £1 million, or with more complex investment portfolios, may want to explore the Principles more fully.

Your trustee duties

As trustees, your principal duty is to further your charity's purposes. This means that you must make your investment decisions to further those purposes.
It is up to you to decide how to invest to support delivery of your charity's purposes over time. Depending on your charity's circumstances, you have a wide range of options, but you must:

- *comply with the legal duties and requirements set out in this guidance [CC14]*
- *make decisions in the best interests of your charity*
- *Keep your investment approach under regular review.*

Principle 2 of the Charity Investment Governance Principles explores Leadership. Whilst all trustees are jointly responsible for the charity's investments, in practice some oversight may be delegated to specific trustees, staff members or individuals with a delegated role (for example members of a Finance Committee).

The Principles recommend that:

- where a charity has limited investments held in a bank account, oversight and control are provided by a minimum of two individuals or by an existing committee with finance responsibilities.
- a delegation framework is created by trustees, with support from staff or committee members, setting out which decisions are taken at board level, by staff or by a committee (if applicable). Any trustees, staff or committee members with delegated investment oversight responsibilities report to the board at appropriate intervals so that the board maintains responsibility and oversight. The framework is approved by the board and reviewed at appropriate intervals.

A 'delegation framework' for smaller charities that mainly invest cash is likely to be simple and short, particularly where there are no paid staff or board committees. It may be that all trustees are directly involved in oversight. Oversight and control to be included in a delegation framework can include:

- individuals with oversight responsibilities (trustees or staff) reporting to the full trustee board on at least an annual basis on which bank accounts are held and why those accounts were chosen
- reviewing the bank accounts held on at least an annual basis to ensure they are still suitable for the charity's needs (for example interest rate paid, ease of banking, any notice periods)
- multiple signatories on the account NVCO's Banking for charities and voluntary organisations notes that: "It is a good idea to have 3-5 signatories, so that any two can sign. You need to balance the need for proper oversight and control with the availability of senior people and trustees." Charities using online banking should ensure there are sufficient controls. One example is 'dual control' where one person creates a payment and another person authorises it. Other controls (such as regular review of transactions and bank reconciliations) should also be considered. Charities can refer to the Charity Commission's guidance on Internal financial controls for charities (CC8).

Advice for charities that mainly invest cash

Your charity may keep money in a savings or deposit account. These arrangements count as investments. The same legal duties [see Your trustee duties above] apply to decisions about investing in cash as to other investment decisions.

Protect your charity's money

You should only deposit your charity's money with a trustworthy provider. For example, banks or building societies authorised by the: Financial Conduct Authority; Prudential Regulation Authority; relevant financial regulator in any other country.

Find out what the protection arrangements are if your bank or building society fails, whether in the UK or abroad. You can use the FSCS Bank & savings protection checker - to see how much of your money is protected. If you have a substantial amount to deposit, think about setting a maximum amount that your charity can place with one provider. This can help you to reduce the risk of a large loss if a provider fails. You need to balance the reduced risk against a lower rate of interest on deposits of smaller sums.

If you are unsure whether your bank or building society is authorised by the FCA, PRA or a relevant financial regulator in another country, check the Terms & Conditions on your account/account application, or ask the company to confirm. Terms & Conditions may include wording such as:
"Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register number:)."

FSCS bank & savings protection checker shows how much money is protected. Typically:

- if the charity is set up as a limited company, it would have protection up to the FSCS limit.
- if it's an unincorporated association, it would be protected up to the FSCS limit.
- if it's set up as a trust, protection is dependent on the type of trust. To find out more, click on the 'Need Help' button at the bottom right-hand corner of the FSCS page and select FAQs. Where multiple banks operate under the same registration (for example different high street banks may be part of one banking group) this can mean that only a total amount up to the FSCS limit is protected, even where separate accounts are held. Use the protection checker to find out how much money is protected.

If the charity is holding amounts above the FSCS limit then placing monies with more than one bank or building society can help to ensure more monies are protected. Where very substantial sums are held, opening a huge range of bank accounts is likely to be difficult and cause an administrative burden. In these cases options such as Common Deposit Funds and cash-like investments may be considered, with the risks assessed accordingly.

Choose an account

You should consider: the rates of interest on offer at different providers; when interest is paid; if interest is paid gross or net of tax - if net make sure you can reclaim the tax; any charges or penalties that apply if you want to access your money at short notice or close your account.

UK Finance Voluntary Organisation Banking Guide provides help with finding a bank account
NCVO – Banking for charities and voluntary organisations provides further information
Charity Finance magazine Charity Banking survey (paywall) to benchmark banking services

Charities can refer to the Charity Commission's information on charity banking. Charities can also make use of cash savings platforms which allow charities to move money between savings accounts at a range of banks and building societies using just one login.

- any reputational and other non-financial factors that are part of your charity's investment policy and objectives, and if these are relevant to your choice of account

Principle 3 of the Charity Investment Governance Principles explores Integrity. This includes considering where an investment could conflict with your charity's purposes or harm its reputation.

Where a charity has a small amount of investments, held as cash in a bank account, the extent of any conflicts with the charity's purposes or reputational risks are likely to be very small and unlikely to be serious. Charities may wish to consider responsible banking options, for example, information is available on ethical banks or checking whether your bank provides fossil fuel financing.

Your charity may need more than one account. For example, accounts that allow you to access money at short or longer-notice.

Write a simple investment policy

This should cover:

- *where and how long your charity can deposit cash*
- *the maximum amount your charity can deposit with one provider*
- *your charity's approach to deposits that are short, medium or long-term*

The investment policy should be understood and approved by all trustees. In addition to the above, charities may consider including the following in their investment policy. This ensures that all trustees are in agreement on the purpose of the charity's investments.

- why the charity holds investments, for example holding reserves to ensure stability, seeking financial returns (interest on a bank account) to fund the charity's activities
- if there are any instructions or restrictions in relation to investments, for example in the charity's governing document)
- which individuals will have oversight of the charity's investments eg trustees/staff; signatories; and how banking actions (eg payments) will be approved
- how the relationship between the charity and any bank account provider will be conducted, for example how updates will be received, how often the charity will review the bank account
- how will the charity's funds be protected (eg FSCS)
- reputational or non-financial factors linked to the charity's purposes, for example whether the charity intends to use an ethical bank

For smaller charities that mainly invest cash in a bank account, the investment policy may be included within an existing reserves or financial controls policy.

Get professional advice where appropriate

Where you need advice this should be from someone with suitable knowledge and experience.

Professional advice should be impartial and given by someone experienced in financial and other matters relevant to your charity's investment approach. Trustees of smaller charities that mainly invest cash may decide they do not need external professional advice, for example if there is enough expertise at the charity, or limited, low value investments.

Whether the charity holds 'limited, low value investments' is a judgement for trustees. As examples:

- where a charity holds under £85,000 in a bank account trustees may decide there is sufficient competence among the trustees or staff and that further expertise is not required
- where a charity has larger amounts held in bank accounts then they may seek internal sources of professional advice for example a trustee, staff member or volunteer with experience in financial management of an organisation or a finance qualification
- where a charity is holding investments that are more complex, holding very large amounts of cash over a long period, or considering other ways of investing (see below) then additional professional advice may be needed. Principle 4 of the Charity Investment Governance Principles explores decision-making, risk and control, including taking advice.

Review arrangements regularly

Review your banking arrangements regularly to make sure:

- *they still meet your charity's needs*
- *your deposits still have suitable protection*
- *any charges or rates of interest are still competitive*
- *you are satisfied with the level of service provided*

Fees may be charged for bank accounts, there may also be charges relating to activity on the account. Trustees (and staff working with them) should ensure they are aware of any fees or charges and that these are reasonable in amount, for example by making comparisons with other providers.

For charities using common deposit funds and cash-like investments these will both incur fees.

Other ways of investing cash

- *There are other ways of investing cash, particularly for larger charities. Take advice about your options.*
- *Common deposit funds allow you to combine your assets for deposit with those of other charities. By pooling money with other charities you can get a higher rate of interest. Investing in a scheme like this can be part or all of any charity's approach.*

Where a charity's funds may be needed at short notice or are being held for an upcoming project, then holding cash in a bank account or cash-like investments is likely to be appropriate.

When a charity might consider common deposit funds or cash-like investments

- if a charity holds a very large amount of cash, for example significantly over the FSCS threshold for a single account, it may not be practical to maintain multiple bank accounts
- if larger reserves or an endowment enable the charity to take on a small risk for higher returns. The Charity Commission's CC19 guidance explores questions about investing reserves.

When a charity might consider investing in shares or other asset classes:

- where the charity is in a stable financial position, for example with reserves held over multiple years and strong incoming resources, or an endowment where the spending rate can be varied. Provided that a balanced portfolio is maintained, the financial returns on shares and other asset classes have historically been higher over the longer term than on cash held in a bank account. However the value of shares and other asset classes can go down as well as up, so a charity should consider its spending requirements so that it won't need to sell investments to get cash for spending at a time when the investment is down in value. Charities in this position can explore using a pooled fund, paying for advice from an investment adviser, or speaking with a range of investment managers about the investment options open to them.

When a charity might consider social investments

Social investments can be made to directly deliver the charity's work (for example a charity buying a building from which to run services) or into other organisations which deliver the charity's purposes (for example making a loan to a social enterprise). Typically, charities making social investments into other organisations have a long time horizon and an ability to take a level of risk, for example due to having a large investment portfolio or an endowment.

Reporting on your investments

You must write a trustees' annual report if your charity is registered with the Charity Commission. Your annual report must include an explanation of:

- *how your charity's investments have performed during the year*
- *what your investment policy is, including any non-financial aims that you have for your charity's investments*

Smaller charities or charities with few or less complex investments do not need to include detailed information.

Reporting on how the charity's investments have performed might include a statement to say the charity holds cash in a bank account and X% interest was received. Reporting what the charity's investment policy is can include a short summary of the policy). Charities can consult the Charity Commission's guidance on preparing a charity trustees' annual report.

Disclaimer

The Charity Investment Governance Principles, and all of the related content, whether published on this website or elsewhere, are for information and general guidance only. The Principles and related content do not constitute investment advice or any other form of advice. Charity investors applying the Principles remain responsible for their own decisions and should consider whether to seek investment or other professional advice in relation to their specific circumstances.