

Starting a Small Charity

A Set Of Guidance Leaflets

What Will I Need ?

The Scope of These Guidance Leaflets

This leaflet introduces a series of Guidance Leaflets which give a quick overview of the various things that you will need to take into account in setting up a new small charity.

They are NOT a full and comprehensive guide to Charity Law and all the associated regulations. They are just a simple overview of the main points for those who want to set up a small charity to serve their local community or to help those with a particular area of need. So if you are expecting your charity's annual income to be more than £150,000/yr, or to own property, or to employ more than the equivalent of 3 full-time staff then you should seek proper professional guidance elsewhere.

eg: The Small Charities Coalition Resources webpage: www.smallcharities.org.uk/resources/

The topics covered in this series are:

- 1 Outputs & Outcomes
- 2: Charitable Purposes/Objects
- 3: Governing Document
- 4: Trustees & Officers
- 5: A "Minute Book"
- 6: A Bank Account
- 7: A Way of Recording & Managing Your Funds
- 8: A Business Plan & Risk Management
- 9: Policies & Procedures
- 10: Registering with the Charity Commission
- 11: Gift Aid Registration with HM Revenue & Customs
- 12: A Register of the Members of the Charity

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Starting a Small Charity

Introduction

The “Small Print”

Sorry to have to start off with this, but we wanted to be up-front to avoid any misunderstandings.

This little collection of notes is **NOT** a definitive legal guide to charity law and every aspect of setting up and running a small charity. We have, of course, tried to be as accurate as possible and to cover all the key questions and issues that have cropped up in the many calls that Small Charities Coalition has received to its helpline. But these guidance notes must not be relied upon as a definitive statement of all that the law says you must, and must not, do when starting up a small charity. If still in doubt you should seek professional legal or financial advice, particularly if you want to do something a bit “out of the ordinary”

What is a “Small” Charity?

There is no universally agreed answer to this question.

The term “small charity” means quite different things in different contexts. As a result, there is often some confusion about the bases on which a charity is described as “small”. But in nearly all contexts the primary criterion for describing a charity as “small” is its annual turnover (*ie*: the amount of money it receives and spends each year).

With some of the UK’s biggest charities having annual turnovers of hundreds of millions of pounds, “small” is often taken to be an annual turnover of less than £1,500,000. At the other end of the scale, the NVCO Almanac defines “small” as less than £100,000 per year.

The Charity Commission requires charities with an annual turnover in excess of £250,000 to prepare their accounts on an accruals basis and be subject to audit rather than Independent Examination.

The Small Charities Coalition’s criterion for “small” is a turnover of less than £1,000,000.

According to the most recent government statistics available:

<https://www.gov.uk/government/publications/charity-register-statistics/recent-charity-register-statistics-charity-commission> the vast majority (>75%) of all charities in the UK have an annual income of less than £100,000 – and that number does NOT include those very small charities with an annual income less than £5000 which, until recently, were not eligible to register as a charity with the Charity Commission.

This series of guidance leaflets is written for those who are looking to set up a charity where the initial annual turnover is expected to be well below £150,000/year.

Starting a Small Charity

What Will I Need ?

The following might, at first sight, seem rather technical and daunting.

But it isn't really – most of it is just the sort of common sense that you'd be using anyway.

The purpose of the list – which just summarises the topics covered in more depth by the various leaflets in this series – is to clarify some common misunderstandings and to give you the comfort of being able to tick things off as you get them done as one way of ensuring that you haven't overlooked anything important.

1. Outputs and Outcomes

Outputs are what the charity is going to do;

Outcomes are what difference it will make (*ie*: how the public will be better off as a result of the charity's activities);

The Charity Commission will expect you to make a clear distinction between the intended outputs of your charity and its intended outcomes. And in deciding whether to register your proposed charity the Charity Commission will pay much more attention to what you have written for your outcomes than for your outputs.

2. Charitable Purposes/Objects

Every charity must have its charitable purposes (which may also be called "charitable objects" which are the legal description of what the charity is all about.) These are essentially just a short summary of the charity's Outputs & Outcomes (as in 1, above), using words and phrases which conform to the specific requirements of the Charities Act. Because they have to use legal jargon they can sometimes seem a bit obscure and difficult to understand to the ordinary "man/woman in the street".

3. Governing Document

The rules by which the charity will be run.

A charity's governing document can be in one of several different forms,

eg: A Constitution; Memorandum & Articles of Association; or just simply "The Rules"

4. Trustees/Directors & Officers

You will have to identify and appoint Trustees for your charity.

The Trustees are the people who have the ultimate responsibility for the running of the charity – in particular, for making sure that it keeps to its charitable objects (as in 2, above) in compliance with the Charities Act and doesn't run out of money.

Different charities have different names for those who run the charity, *eg*: Committee, Directors, Managers. But under the Charities Act, anyone who effectively runs the charity – *ie*: has a vote in all the major decisions – is a "Trustee", whether or not they are called "a Trustee".

The Charities Act requires that, with few exceptions, charity Trustees are unpaid volunteers. So where a charity wants to have paid staff to manage the day-to-day operations of the charity those employees cannot also be Trustees. Employees, however senior/well-paid, only act on

delegated responsibility on behalf of the Trustees, and it is ALWAYS the Trustees, NOT employees, who have the final say/responsibility for the way that the charity is run.

This means that the Board of Trustees of a charity functions quite differently from the Board of Directors of a company, even where the charity is also a limited company and the Trustees of the charity for the purposes of charity law are also the Directors of the company for the purposes of company law. This significant difference between the roles & responsibilities of charity Trustees and those of company Directors is often not properly recognised by the Trustees of small charities, and therefore leads to misunderstandings and confusion, particularly in relation to the roles and responsibilities of the charity's officers, eg: Chair & Treasurer.

There are 3 companion leaflets in this group:

- Leaflet 4a deals with the general roles and responsibilities of Trustees, and covers some common areas of confusion like the roles/responsibilities of “honorary” Trustees (eg: President, Patrons, Emeritus Members) and the differences between the roles and responsibilities of Trustees & Members;
- Leaflet 4b *{still in preparation – not yet available}* deals with the specific roles and responsibilities of Officers, eg: the Chair, Treasurer & Secretary;
- Leaflet 4c deals with the vexed issues of what payments can, and can't be made to Trustees in different circumstances.

5. A “Minute Book” □

Something in which you can keep a record of:

- all the Trustees' meetings;
- all the General Meetings of the charity;
- the people who attended those meetings;
- all the key discussions that took place and decisions taken.

6. A Bank Account □

You must be able to manage your charity's accounts separately from your personal money.

Most high-street banks offer low-cost (usually free, provided that your annual turnover is “small”) accounts for charities and voluntary organisations.

And there are some specialist banks which provide accounts only for registered charities.

7. A Way of Recording & Managing Your Funds □

As you will be collecting and spending money given by others specifically for the purposes of your charity you will be expected to keep clear records of where the money comes from and how it has been spent.

There is any number of commercial accountancy/book-keeping software packages for “small” organisations. Although many of them say that they can also be used by charities, most are designed around the financial requirements of small business and can be quite difficult to adapt to charity book-keeping.

There is also a small number of commercial accountancy software packages written specifically for charities (to find them just search the internet for “charity accounts software”).

But many small charities in their early years of operation just use a simple spreadsheet which they have created themselves.

There are 4 companion leaflets in this group.

- Leaflet 7a deals with the general issues of bookkeeping and the preparation of budgets and other reports for Trustees.
- Leaflet 7b deals with the preparation of the Annual Financial Report specifically for Unincorporated Associations;
- Leaflet 7c deals with the preparation of the Annual Financial Report specifically for Charitable Incorporated Organisations (CIOs);
- Leaflet 7d {still in preparation – not yet available} looks at the similarities & differences, pros & cons, of Receipts & Payment vs Accruals accounting, and some of the issues created.

8. a: A Business Plan

A Business Plan isn't something just for big, profit-making commercial organisations. Even the smallest charity or voluntary organisation can benefit from a Business Plan. It doesn't have to be big, glossy and grandiose. Just a few sides of A4 might be sufficient.

The Business Plan should include a Risk Management Plan (*see next section*).

There's an old – but still very true – adage:

Organisations don't plan to fail – they simply fail to plan.

b: A Risk Management Plan (*Part of the Business Plan*)

{This leaflet is still in preparation – Not yet available}

The Charity Commission will expect you to demonstrate that you have given proper thought to the risks that your charity will (or might) face and how you propose to deal with them.

Risks come in a wide variety of “shapes and sizes”. A charity involved in outdoor adventure activities might face physical risks to the participants in its activities. A charity involved with vulnerable children or adults might face not only risks to those children or adults but risks to staff or volunteers who are subject to allegations made against them. And most charities face financial risks, *eg*: if their source of support or funding ceases.

9. Policies & Procedures

As charities vary enormously, so too does the range and content of the policies and procedures that they should have in place.

Some will be very specific to particular charities – *eg*:

a “Safeguarding Policies & Procedures” document for charities working with vulnerable children and/or adults, or

an “Outdoor Safety Policy” for charities which provide adventure activities.

Others, *eg*: a “Conflicts of Interest Policy”, will be common to most charities.

10. Registration with the Charity Commission

Once you've put together all the things in items 1-9 above you should have just about everything that you need to register your charity with the Charity Commission.

To register you have to complete the on-line application form – there is no longer any mechanism for registering in paper format. You'll find the on-line application form, along with a lot of detailed information about how to complete the application, on the Charity Commission's website:

But even if you decide not to register with the Charity Commission (*eg*: you don't need

“incorporated” status (see item 1 above) and your annual turnover is less than £5000) being consistent with the guidelines can avoid unnecessary future difficulties.

There are 2 companion leaflets in this group.

- Leaflet 10a is simply a list of all the questions that you will have to answer in completing the on-line registration form. Although it is possible to page through the on-line form and save incomplete (or inaccurate) responses to return and complete/correct them later, that is not always intuitive. So for those who complete the application form on a regular basis, the form is relatively straightforward. But for those setting up a charity for the first time it can be frustratingly bewildering.

In particular, if you go through the form “blind” (*ie*: responding to questions as they appear, without being able to see what the subsequent questions are) it is very easy to be answering early questions in a ways that are best left to subsequent questions, so you have to go back and make significant changes to your earlier answers. The idea of this leaflet is to allow you to look through ALL the questions in advance so that you can:

- (a) see where the responses to some questions duplicate or overlap the responses to others;
- (b) better prepare your answers and put the most appropriate responses in the right place.

You might find it easier to prepare your answers off-line – *eg*: in something like MS-Word® – so that you can cut-&-paste them into the on-line form once you are happy with them.

Note also that the current on-line application form is very interactive, so that the specific questions that you will be asked will depend on how you have answered previous questions. This makes for a considerable number of possible combinations of questions – so you are very unlikely to be asked all of them. Leaflet 10a has tried to list all the possible questions that are asked. Those questions which only appear if you have answered an earlier question in a particular way are identified in the leaflet. But, because there are so many possible combinations of questions, it is difficult to test each combination individual. So don’t be surprised or worried in you find that a particular question listed in the leaflet unexpectedly appears (or does not appear) when you go through the on-line application.

- Leaflet 10b provides some detailed comments on what kind of information/response the Charity Commission is looking for and suggestions of how to respond to questions and the best place to put the various bits of information about what your charity is going to be doing, and why.

11. Gift Aid Registration with HMRC



{This leaflet is still in preparation – Not yet available}

If you are intending to collect voluntary donations for your charity and want to claim the Gift Aid on them you will have to register separately with HM Revenue & Customs, even if you have registered your charity with the Charity Commission.

Unincorporated charities below the £5000 threshold for registration with the Charity Commission **CAN STILL REGISTER FOR GIFT AID** with HMRC.

You can do that by completing HMRC’s on-line registration form at:

<https://online.hmrc.gov.uk/registration/>

12. A Register of the “Members” of the Charity



{This leaflet is still in preparation – Not yet available}

Who are, and are not, the members of the charity will be defined by the charity’s Governing Document (as in 3 above). Just because someone is a volunteer for, or supporter of, the charity doesn’t automatically make them “members” of the charity.

The “members” of a charity usually have privileges (*eg*: voting rights) and responsibilities, as defined by its Governing Document (see 3 above). But the ultimate responsibility for the running of the charity still lies with the Trustees (as in 4 above).

There is often a lot of confusion and misunderstandings about the roles and responsibilities of Trustees and Members, particularly in relation to the day-to-day running and operations of their charity. This is covered in more detail in section 5 of Guidance Leaflet 4a, “Trustees”.