

Councillors' guide: to a council's role as charity trustee

Introduction

This guide has been jointly produced by the Local Government Association and the Charity Commission. It specifically addresses the situation where a local authority is itself the sole trustee of a charity. Many local authorities hold assets that are subject to charitable trusts. Often this is because a donor has left land or property to a council on condition it is used for a public purpose - such as a museum, art gallery or recreation ground. In such a situation the local authority has the status of charity trustee.

This brief introductory guide is intended to help councils and council members fulfil this role responsibly in accordance with charity law and to avoid some of the financial and reputational pitfalls that can occur when things go wrong. This guide does not address the wider set of issues relating to council staff or members being trustees of other charities or the relationship between local authorities and external charitable bodies more generally.

What is a charity?

A charity is an organisation or entity established **exclusively** for purposes which are capable of being **charitable** and which are for the **public benefit**. In England and Wales, charitable purposes are defined in the Charities Act 2006. Public benefit is explained in Commission guidance.

The people who serve on the governing body of a charity are called **charity trustees**. The **beneficiaries** might be the population of a local area, or a particular type of person, such as those suffering from a medical condition. Trustees have and must accept ultimate responsibility for directing the affairs of a charity, and ensuring that it is solvent, well-run, and delivering the charitable outcomes for the public benefit for which it has been set up. Trustees have a duty to act solely in the interests of the charity and its beneficiaries.

A corporate body such as a local authority can also be a charity trustee. Where a local authority is trustee, the property in question is often land or buildings intended for a particular purpose; but councils as trustees can also hold financial investments or other funds, often for the purpose of awarding grants to the community. In either case, it is essential to ensure that the assets are held and applied in accordance with the charity's particular purpose.

Charity law and the Charity Commission

There are about 180,000 registered charities in England and Wales with a collective income of around £50 billion a year. All charities must comply with charity law which defines charities and how they are run.

The Charity Commission is the independent regulator of charities in England and Wales. Its aim is to provide the best possible regulation of charities in order to increase charities' effectiveness and public trust and confidence in the work they do. Most charities with an income above £5,000 per year must register with the Commission.

The council's role as charity trustee

Local authorities are empowered by Section 139 of the Local Government Act 1972 to receive and hold gifts on charitable trusts. This may include money or assets left by donors, or charitable trusts created by ancient royal charters or Acts of Parliament.

Local authorities are well suited to being charity trustees; in particular councils are:

- rooted in the local community;
- open and transparent in their dealings;
- highly accountable for their actions; and
- have the high standards of public conduct embedded in the way they work.



There are similarities between the rules and regulations that apply in discharging the functions of a local authority and those of a charity. While many of those underlying principles of prudence and transparency will apply equally to managing charitable trusts, there are also differences. An understanding of these differences is essential if local authority trustees are to perform this role effectively and with the minimum of risk. A number of councils have encountered problems in this area, most notably because:

- councils, used to exercising wide discretion in the way they manage their assets, may not have fully recognised and complied with the restrictions on the use of charitable assets;
- conflicts can arise between things that would be popular with the electorate and the obligations of the trustee, imposed by the terms of the charity;
- where assets were left to the council many years ago, the precise terms of the charity, or even the fact that it is a charity, may have been forgotten or overlooked.

Fictional Case Study A – Southbeach Borough Council

Scenario: Southbeach Borough Council plans a major refurbishment of the sea-front Pavilion Rooms, to include a new art gallery, public meeting rooms and tourist information centre. The Council's solicitor has checked and the building was left to the Council in 1948 on charitable trusts to be used for "public gatherings, artistic or cultural or other activities for the benefit of the people of Southbeach."

Issues and solutions: The promotion of tourism is not a legally charitable purpose. The Council has a conflict of interests between its desire as a public authority to promote tourism and its duty to act in the charity's interests.

As trustee, the Council must ensure that the purposes of the charity are fulfilled. Depending on the terms of the trust, perhaps a proportion of the charitable use could be accommodated within council premises elsewhere to allow a Tourist Information Centre to be incorporated in the refurbished Pavilion. Alternatively, if there is genuinely spare capacity within the Pavilion, perhaps a Tourist Information Centre could be accommodated through a commercial lease from the charity to the Council. In either case, Charity Commission advice and authorisation are likely to be needed.

Fictional Case Study B – Touchline District Council

Touchline District Council is trustee of a recreation ground in an out-of-town location which is little used. It was bequeathed in 1967 by a local citizen as a public recreation ground within the meaning of the Recreational Charities Act 1958. Last year the Council leased the site to the Touchline Football Club to facilitate their expansion plans and the Club has now laid out pitches, spectator areas and has built a substantial Clubhouse.

Issues and solutions: Under the Recreational Charities Act the facilities must be available to members of the public at large. Accordingly, permitting the exclusive use of the grounds by one club would not meet this requirement. In granting the lease, the Council has acted outside its powers and in breach of the charitable trusts. This situation may be complicated to resolve and local feelings are likely to run high, but open public access must be restored as soon as possible on this site or a suitable replacement provided by the Council. Charity Commission advice and authorisation may be required, particularly if the Council is considering an exchange of charity land for land it holds in a corporate capacity.

Managing charitable trusts safely

Local authorities have the skills, public knowledge and professionalism to manage charitable trusts very effectively but care needs to be taken to ensure that unnecessary problems do not arise. Councils and council members should be aware of the following principles:

- For a body to be a charity, it must be independent, i.e. it must exist and operate solely for charitable purposes, not as a means of carrying out the policies or directions of the local authority.
- Where a local authority is a trustee of a charity, it is the corporate body, acting in accordance with its usual procedures, which is "the trustee." While ongoing management may be delegated to officers, responsibility for decision-making and oversight rests with the councillors.
- The terms of the charity must be clearly understood. Nearly all problems that occur stem from a lack of clarity regarding these terms, or indeed failing to recognise that a charity exists in the first place. If there is any doubt about the terms of a charity or how they should be interpreted, appropriate advice should be sought, for example from legal advisors or from the Commission.

- The management of the charity should be kept separate, as far as possible, from the business of the local authority. Depending on the size and circumstances of the charity, it may make sense for a committee of councillors to be allocated this task. It must not be forgotten, however, that responsibility continues to rest with the whole council.
- Equally the finances of the trust must be kept separate from those of the council. The assets must be accounted for separately and income and expenditure should be channelled through discrete cost centres. The local authority may top up the finances of the trust but no funds should pass from the trust into the council's own accounts – although the council may, depending on the circumstances, recover the costs of administration.
- If the original terms of the charity can no longer be realistically followed, because circumstances have changed, the local authority should approach the Commission to see if the charity's governing document can be amended or updated. The Commission can advise on the most appropriate way of doing this.
- The Commission's registration and reporting requirements must be observed. For example, all charities must produce annual statements of accounts under charity law. Depending on the financial size of the charity, it may have to register with the Commission, or be subject to higher levels of accounting scrutiny.
- If any issues arise about whether the terms of the trust have been properly followed, the local authority should contact the Commission and work with them in finding a solution.

Fictional Case Study C – Heritage City Council

Scenario: Heritage City Council is trustee of a charity whose investments include a number of properties, with the income applicable for charitable purposes that benefit the inhabitants of the City. One large building has become semi-derelict and a developer has offered the Council £3 million for the site which it wishes to convert to a night club and casino. The Council feels obliged to accept the windfall but local residents are outraged.

Issues and solutions: As trustee the Council must act exclusively in the best interests of the charity. It must make its decision based on consideration of the charity's interests alone. The trustee must manage its conflict of interests and not take account of factors that are irrelevant to the charity (such as the Council's political interests). It must adequately inform itself before making a decision.

Taking appropriate independent professional advice, the trustee should consider whether the offer of £3 million represents the best sale price that the building is likely to achieve. The property should be marketed unless the charity's professional advisor advises otherwise. The trustee could consider whether it should take account of any risk to the charity's reputation. There may be a range of issues on which the trustee might require the Commission's advice, depending on the particular trusts on which the building is held.

In this case, however, the conflict of interest may be unmanageable because of the rules against self-dealing; the Council would have to act as both charity trustee and planning authority. The Council might need legal authority from the Charity Commission either to act notwithstanding the conflict of interest, or to bring in an independent "trustee" to act for the charity for this transaction (which might be preferable in the circumstances).

The trustee might have found it helpful to have a pro-active asset management plan in place. This might have increased the range of potential options for maximising the return on the charity's assets.

Useful Guidance

Available from the Charity Commission website www.charitycommission.gov.uk

- *The Essential Trustee* (CC3)
- *Sales, leases, transfers or mortgages: What trustees need to know about disposing of charity land* (CC28)
- *Charities Act 2006: What Trustees Need to Know* - a plain English guide published jointly by the Charity Commission and the Office of the Third Sector
- *Public benefit guidance*
- *Local Government Charity Toolkit*

Ten tips for councils in their roles as charity trustee

1. Ensure that any charitable assets, for which the local authority is the trustee, are clearly identified.
2. Make sure you are clear about the objects of the charity set out in its governing document as these dictate how any such asset may be used, in accordance with charity law.
3. Make sure that any charitable assets, for which the council is the trustee, are managed independently in accordance with their charitable purpose and any restrictions in the governing document.
4. Recognise that charity trustees have a duty to be prudent and to act solely in the best interests of the charity.
5. Ensure there is a clear line of responsibility for the management of all charities for which the local authority is the trustee.
6. Ensure that there are clear guidelines for officers and councillors about roles, responsibilities and decision making in the administration of charities.
7. Ensure you have a clear process for identifying and managing any conflicts of interest that arise where the local authority is the trustee of a charity.
8. Actively manage any charity for which the council is the trustee – keeping records up to date, submitting the necessary returns to the Charity Commission and reviewing investments, risks and opportunities on a regular basis.
9. Periodically review whether it continues to be in the best interests of the charity for the local authority to remain as trustee.
10. Follow Charity Commission guidance (and obtain appropriate advice) if you are planning to dispose of charity land, alter the charitable purpose or other terms of the governing document, or take action where trusts have become dormant.