

Banking for charities



Information for people who manage the financial affairs of a charity or voluntary organisation in Scotland



Welcome

This guide is for people who manage the financial affairs of a charity or voluntary organisation. Whether you are looking after the books of a local sports club or an organisation that supports the elderly, this guide aims to help you explore the accounts on offer and decide on the best way to manage your organisation's finances.

The guide lays out your responsibilities as a person who manages a charity's/voluntary organisation's finances, helps you ask the right questions in order to establish your charity's banking needs, and answers many frequently asked questions. The guide is aimed towards those involved with the financial affairs of smaller organisations, but others may also find it useful.

We hope this guide helps trustees, managers and anyone who has financial responsibilities to successfully navigate the banking landscape and improve the management of their charity's or voluntary organisation's finances.

What are your responsibilities?

It is important to outline the responsibilities of charity trustees specifically; however the points outlined below are also relevant for other voluntary organisations.

Trustees are responsible for the general control and management of their charity, and ensuring it is solvent and well run. They have both general and specific legal duties and responsibilities under the Charities and Trustee Investment (Scotland) Act 2005. The Scottish Charity Regulator (OSCR) is the independent regulator and registrar of charities in Scotland and has published Guidance for Charity Trustees that explains these duties in greater detail: www.oscr.org.uk

As part of these responsibilities, trustees must make sure the organisation's funds are managed properly and must ensure banking arrangements are suitable for the charity's needs. Trustees must remain ultimately responsible for running the charity, but they can delegate powers to others – including management of the charity's finances.

If you are a trustee or have been delegated responsibility for a charity's or voluntary organisation's financial affairs, you must ensure that you exercise care and skill when making decisions. You must also:

- consider how suitable any account is for your organisation
- consider how you should best manage any risks associated with banking and take advice where you think appropriate
- update your bank as early as possible on any relevant changes in your charity/voluntary organisation.

Where necessary, you should review your banking arrangements from time to time. It is important you can justify your decisions and the choices you make. So long as you can demonstrate that you have considered the relevant issues and reached a reasonable decision, you are unlikely to be criticised for your actions.

First things first: consider your organisation's needs

You should consider your charity's/voluntary organisation's overall financial position and what you are looking for from a bank before deciding which bank(s) to approach. You may just need somewhere to keep your organisation's cash: a straightforward current account with instant access. Or you may want a range of different accounts and services, for example a current account, savings account, credit facilities and longer term investment options.

The following questions will help you establish the type of bank you wish to bank with, the type of account you need, and the services you require:

- What does the cash flow of your organisation look like over the next 12 months (or longer)? Things to consider regarding cash flow include the likelihood of you having excess cash for part of the year (therefore you might need to know about short term investment opportunities) or needing borrowing facilities – or perhaps both. Keep in mind any requirements laid out in your charity's reserves policy.

- How do you receive your income? In cash, cheque or electronic payments?
- How will you authorise payments – will you require dual authorisation? This may be stated in your governing document.
- Do you need a company credit card(s)?
- Do banks' ethical policies matter to your charity?
- Do you need the services of a bank with local branches (e.g. for banking funds)? Do the local bank branches need to be easily accessible (e.g. cater for wheelchairs)?
- Does your organisation operate abroad? Will it need to make foreign currency transactions?
- Will you need a number of bank accounts or just one?

Exploring the accounts on offer

All charities need a deposit or current account to hold cash for the day-to-day running of the organisation. It may seem daunting that different banks offer accounts with different names like societies' accounts, trustees' accounts, charities' accounts, small business accounts, and so on. However, all of these accounts are similar to a current account and offer functions such as a place to keep your money and a cheque book.

What makes these accounts different from each other is that banks have developed packages of options which they hope will suit your organisation's needs and will encourage you to bank with them. Most banks list the accounts and services available on their websites, and there are also a number of comparison websites which outline the different options available to you.

Many charities and voluntary organisations use business bank accounts. In some cases banks stipulate that larger charities (by turnover) or those with certain organisational forms (e.g. a charitable company limited by guarantee) have to open a business account rather than charity account. Make sure you shop around. There are many options to consider when selecting an account that works best for your charity.

Your organisation's legal status will also determine the type of account which can be used. If a number of banks look suitable or you have questions, speak to the banks. It is also important to document your research and record the answers and results of enquiries made to various banks so they can be properly compared and discussed. Ensure you satisfy yourself and your fellow trustees or committee members that you have explored all the options out there.

Asking the right questions

There are many things to consider when it comes to finding a bank account that best suits the needs of your charity or voluntary organisation. To help, we have produced a range of frequently asked questions (see pp.9-16), covering everything from overdrafts and interest rates to account signatories and ethical considerations.

Early engagement with your bank will help. Some banks may offer a specialist relationship or regional manager to assist charities with their account, however these are not always available for smaller organisations. Ask your bank if this service is available.

If this service is available, you can make use of your relationship manager's knowledge and banking experience.

It may also be helpful to take some time to explain the background to your organisation and develop a rapport with your relationship manager so that they understand your requirements.

Relationship managers can help you:

- manage your cashflow;
- borrow and save money; and
- find out about any additional services the bank can offer.

Your relationship manager should provide all agreements and negotiations around fees, charges and future arrangements in writing, however minor they may seem.

Make sure you receive and retain these documents as you may need to refer to them in the future.

If your bank cannot offer the service of a relationship manager, find out who in the bank is best placed to answer any queries you may have.

Making sure your internal financial controls are robust

When making decisions about banking arrangements, charities should always consider the financial controls that should be put in place within their own organisation to protect against fraud and theft. Internal financial controls are essential checks and procedures which help trustees meet their legal duties to safeguard the charity's assets and reduce the risk of loss.

OSCR's Guidance for Charity Trustees outlines a number of considerations (www.oscr.org.uk). The Charity Commission has also produced a guide called Internal Financial Controls for Charities, which outlines a number of basic banking controls that charities should consider (www.charitycommission.gov.uk/publications/cc8.aspx). The list below provides a brief outline of controls that should be in place.

Charities and voluntary organisations should ensure:

- cheques and cash are banked regularly and promptly;
- cheque books are kept in a safe place;
- nobody is pre-signing blank cheques;
- there is a clear policy for the use of payments cards, the criteria for their issue, spending limits and security;
- dual authorisation arrangements are put in place if making BACS and other payments;
- only specifically authorised individuals are able to set up arrangements to make payments by standing order, direct debit or BACS. This authority should be limited to a small number of people with a list of authorised individuals drawn up and retained; and
- if using electronic banking, passwords are changed periodically and all PCs are kept up to date with anti-virus, spyware and firewall software.

Changing your bank

You should regularly review your banking arrangements to ensure that you are getting a competitive deal that is best suited to your organisation. If you are not happy with the service your bank is providing or think you could receive a better service elsewhere, you may want to consider changing your bank.

Account switching is becoming easier and faster as banks wish to encourage customers to switch to them. You may wish to consider shopping around for a new bank and enquire what their procedure and processes are for switching.

What to do if you have a complaint about your bank

All banks have procedures for handling complaints, and customer-facing staff should be able to tell you what these are if the need arises. When opening your account, the bank should tell you where you can find details of its complaints handling procedures.

If a bank is unable to resolve your complaint to your satisfaction by the close of three business days following receipt of the complaint, the bank should provide you with a written acknowledgement that the complaint is being considered.

It is the bank's responsibility to keep you informed about the progress of the complaint and within eight weeks you should receive a final response or an explanation why a final response has not yet been reached.

If you are not satisfied with the bank's handling of the complaint you can refer it to the Financial Ombudsman Service, which is a free-of-charge adjudicator for all complaints within the financial services. You can find out more about this organisation at:

www.financial-ombudsman.org.uk

Financial protection for deposits

The Financial Services Compensation Scheme (FSCS) is the compensation fund of last resort for customers of authorised financial services firms. If a bank becomes insolvent or ceases trading, the FSCS is able to pay compensation to its customers.

For the latest information, see: www.fscs.org.uk

The Charity Commission has also published guidance about the scheme for charities:

www.charitycommission.gov.uk

Getting professional advice

The financial authorities supervise and enforce consistent standards for people who are allowed to give financial advice. Bank branch staff are able to help guide you towards banking products that may suit your needs, but they are not usually Independent Financial Advisers (IFAs) and therefore cannot advise you on what decisions to take, or what is available from other banks.

An IFA is a professional who provides financial services advice to individuals, businesses and other groups. They can provide investment, insurance and mortgage advice and can also help you structure your investment portfolio – for example helping you maintain your desired balance of investment income, capital gains, and acceptable level of risk.

Some banks employ IFAs who operate separately from branch staff. These advisers will not promote the products of any single provider and can deliver expertise in research and product selection. Financial advisers may offer their services on a fee or commission basis for the various financial products that they broker.

You may also wish to consider speaking to a qualified accountant or charity expert at an early stage to ensure your charity is set up correctly. Your organisation's legal status has a direct impact on the different levels of governance that need to be in place.

Frequently asked questions

OPENING AN ACCOUNT

What types of payment services will I need?

Different bank accounts provide access to different payments services and ways of accessing money. When looking for an account, consider the main payment services you will need such as: debit card, cheque book, direct debits, standing orders, online and telephone access.

What additional payment services are offered such as BACS, CHAPS, direct debit and bulk payments to pay suppliers or wages and salaries?

Additional payment services are offered by most banks.

Make sure you have a good understanding of how these services work and how to set them up appropriately for your organisation's needs, for example consider whether you need dual authority. Talk to your bank if you need any clarification and ensure you check whether there is a charge to use these services.

To comply with anti-money laundering laws, banks need to undertake due diligence. To enable a charity/voluntary organisation to make payments to other clients, domestic or foreign, you should keep in contact with your bank to ensure they understand and know how your business operates.

Is a minimum amount required to open an account?

Some banks require that a certain amount is placed into the account on opening. This is normally not substantial, but it is worth checking that you will be able to deposit that amount when the account is opened.

What ID documentation do I need in order to open an account?

The BBA's Proving Your Identity leaflet (www.bba.org.uk/publication/leaflets/proving-your-identity) lays out the types of documents most banks and building societies will accept as forms of identity. Common types of identification include:

- Passport
- Driving licence
- Utility bills
- Birth certificate.

However, some banks and building societies may accept some documents that others won't.

Banks are required by regulation to 'know their customers' and protect both their customers and stakeholders from fraud, money laundering, reputational risk and other aspects of financial crime. To fulfil this requirement, the documents that each bank will accept or require to see can often change. You should contact the bank or building society directly about what they will or will not accept from you as proof of identity. Banks or building societies usually want to see two separate forms of identification – one document to prove who you are and another document to confirm where you live. Your organisation's legal status will determine which trustees/other individuals need to be identified. Ensure your team know who is required to present what identification to help the bank keep the opening process effective and prevent delays.

You will need to provide original documents – photocopies are not usually accepted.

Some banks have streamlined the verification process so that you do not need to supply identity documentation – they will do background checks once an application form has been submitted. Speak to your bank to see what is required.

If you are opening a charity account, banks generally require some proof of charity identification – a Scottish charity registrar extract, an OSCR charity status award

letter or tax reference number, for example. You may also be asked for a copy of your organisation's corporate structure or governing document. Again, due to tightened regulation around financial crime and sanctions your bank may need additional details about your organisation and the jurisdictions with which it interacts. Speak to your bank and ask what requirements they have.

Are there any reasons why a bank will not allow me to open an account?

Banks have the legal right to choose who they do business with. Many banks will not open an account for individuals who are undischarged bankrupts and no banks provide accounts for individuals with a conviction for fraud. You may also have problems if you or your organisation are currently in a large amount of debt with a bank or plan to make transactions with high money laundering risk jurisdictions. Disclosure of all relevant information will allow the bank to provide you with the correct advice for the bank account opening process.

Are there any monthly bank charges for operating my account?

A number of banks offer free banking for smaller charities, making no charges for routine matters such as paying in, drawing cheques and holding cash. However some bank accounts have a charge for their use which covers the cost of running the account and the additional services.

This usually involves a fixed monthly charge, however some banks may offer a cost per transaction or a mixture of both. Ask your bank about their charging structure and consider what types of transaction you process most – for example, do you mainly pay in small cheques as opposed to large direct credits such as grants?

Additionally, it is worth checking whether the bank offers specialist rates for your type of organisation and, if so, how these compare to regular charges.

Be aware that bank charges may change, but if your bank plans to alter your arrangement then it will notify you in advance. Banks will be able to go through the various options available to you and make recommendations based on your organisation's individual circumstances. Make sure you understand what is included with the account and be clear about what incurs an additional charge.

What is the rate of interest and when is it paid (monthly or annually)?

If you are likely to be holding large amounts of cash, or are looking to save money, you need to consider the interest rate available on your account. You should always compare rates across the market to check you are happy with what is on offer at your bank. Rather than constantly seeking the highest rates, you may prefer to deposit cash in a bank that has consistently good rates.

As a charity, you can also receive tax relief on bank or building society interest. Speak to your bank and enquire what documentation you need to provide to ensure interest is paid gross of tax. In many cases it should be sufficient to show proof that HMRC recognises your organisation as a charity for tax purposes.

Contact your bank if you think you have already been paid interest with tax deducted – they should be able to review the situation and make sure everything is correct. Fixed term and deposit accounts are on offer from many banks. These can provide a higher rate of interest but come with restrictions on access to the account. Charities with larger cash deposits may want to consider this type of account; however it is important to think carefully about what your access requirements are.

How do I consider ethical or socially responsible banking?

An increasing number of voluntary organisations have an ethical investment policy in place that means that they would choose not to bank with a company that does business with, for example, the tobacco, arms or gaming industries - depending on their charitable purposes. If ethical or charitable considerations have an influence over your choice of bank, make sure to compare banks' policies and projects and check out their websites for details.

ACCOUNT ACCESSIBILITY

How many authorised individuals can I have on the account?

OSCR recommends that, where practical, bank mandates should require two signatories – one being a trustee. However, it accepts that arrangements should be practical and proportionate, and for some charities this arrangement may not be feasible.

You may, therefore, want to consider nominating more than one person who can authorise withdrawals (such as cheques). Some banks allow several signatories on an account and you need to consider how you want cheques and payments to be signed for (e.g. one of a number of trustees, or at least two or more trustees for each transaction). Speak to your local bank to discuss what they offer. If there are likely to be several signatories on your account, make sure you communicate with each other exactly when you plan to withdraw funds to avoid accidentally going overdrawn and incurring a bank fee.

Look at whether any conditions apply when withdrawing funds. For example, some branches may need written notification in advance and proof of ID for individuals to withdraw cash.

If you choose to use online banking, OSCR recommends using a dual authorisation system (there can be a charge for this service).

How easy it is to switch authorised signatories on the account?

Charity personnel change frequently so you may want to ask your bank what the processes are for changing the authorised signatories on your charity's account.

It should be straightforward to change signatories subject to the usual checks and requirements for ID (see the 'Opening a bank account' section on p.9 for further information). Regular contact with your bank is beneficial and it is important that you notify your bank as soon as there will be a likely change in signatories. This will help to avoid delays when you are completing banking tasks.

How many different ways are there to operate my account?

You may wish to operate your account online, over the phone or in branch – or all of the above. Consider how suitable all of these methods are for your charity/voluntary organisation. For example, for small organisations where signatories do not meet regularly, internet banking is hugely beneficial but visiting branches and telephone banking may not be.

If you choose to use online banking, OSCR recommends the use of dual authority for financial control. Some banks may charge for this facility and some may not offer it for smaller organisations. Check the account you're interested in allows you to use it in the way that best suits you.

How can I regularly monitor my funds?

If you have requested statements, then your bank will send them to you on a regular basis. If you need to see how much money is in your account, you can check your account balance and sometimes get a mini-statement from your bank's cash machine. Many banks provide telephone and internet banking services. Ask your bank for more details of how to access and use these services.

What changes should I inform my bank about?

You should notify your bank about all important changes as soon as possible. There are a number of important changes that you should keep your bank updated on, including changes in signatories and changes in your organisation's legal form. A large number of organisations in Scotland, for example, are changing to become Scottish Charitable Incorporated Organisations (SCIOs). In most cases, changes in legal form will require a new account to be opened.

How easy is it to switch my account to another bank?

See the 'Changing your bank' section on p.7 for more details.

Does the bank offer the services of a relationship manager who will help me manage my account?

See the 'Asking the right questions' section on p.6 for more details.

Is location important?

You may want your bank to have a branch close to you. Location may matter less if you are happy to use online banking, but you should note that forwarding cheques to your branch could take a while to be deposited into your account – ask your bank how long this would usually take.

OVERDRAFTS AND CREDIT

Are there overdraft or credit facilities (e.g. loans) available?

Some banks will provide overdraft or credit facilities on an account for charities/voluntary organisations. If you would like a loan, an overdraft, a credit card or any other type of credit, then you should talk to a bank or financial adviser to get information about your options.

Will I be charged for going overdrawn or into an unarranged overdraft on my account?

If you spend more money than you have in an account, you will go overdrawn. Some banks will provide you with an overdraft for your account, others may not. If you go overdrawn without prior agreement, or if you exceed the agreement you set with the bank, then you will be in an unarranged overdraft and may be charged. If you go overdrawn on your account without prior agreement, it is vital that you understand how much and how frequently you are going to be charged and take steps to stop further charges being applied – either by depositing money in to the account or coming to an arrangement with your bank.

Banks should provide information about fees for going overdrawn on monthly bank statements and on their websites to allow you to see what charges may be incurred.

Many banks are developing tools for a range of accounts that should help you to exercise greater control over your finances and avoid going overdrawn.

Speak to your bank to see what is available, but generally these tools include:

- text alerts that let you know either when the account balance is low or when a transaction has taken the account overdrawn;
- a small buffer zone to prevent incurring a charge for relatively small overdrawn amounts;
- an overdrawn 'opt out', which prevents you from inadvertently withdrawing more than you intended; and
- a short grace period for you to bring the account back into credit or into an authorised account balance, avoiding charges.

Glossary

BACS: BACS stands for Bankers Automated Clearing System, which is the system for sending money electronically between banks. A BACS payment happens when money is sent electronically from one bank account to another.

CHAPS: CHAPS stands for Clearing House Automated Payments System. It is a computer system, which allows payments to be made electronically. The payment goes from the paying bank to the receiving bank on the same day.

CREDIT: A credit is money received.

CREDIT CARD: A credit card is a plastic card issued by a bank or building society that allows you to make purchases now and pay for them later.

CURRENT ACCOUNT: A current account is an account with a bank from which any part of the balance may be withdrawn on demand. Withdrawals may be in the form of cheques payable to the drawer or a third party, by direct debits, standing orders, and via cash machines and debit cards.

DIRECT DEBIT: A direct debit is an instruction from a customer to their bank or building society authorising an organisation to collect money from their account, as long as the customer has been given advance notice of the collection amounts and dates.

DUAL AUTHORISATION: Where two signatories need to approve a payment before it can be processed.

FSCS: The Financial Services Compensation Scheme (FSCS) is the compensation fund of last resort for customers of authorised financial services firms. If a bank becomes insolvent or ceases trading the FSCS is able to pay compensation to its customers.

IFA: Independent financial adviser (IFA) - an adviser committed to offering 'best advice' on the range of investments and plans in the marketplace, rather than someone selling investments from just one company.

INSTANT ACCESS: An account that allows withdrawals to be made at any time, without having to give any prior warning or notice and without incurring any charge or interest penalty.

OVERDRAFT: When a customer borrows from the bank by arranging to take out more money than they have in their bank account up to an agreed limit and repaid over a period of time.

SIGNATORY: An approved named individual on the account who is authorised to withdraw funds and make payments.

STANDING ORDER: This is an instruction by a bank's customer to the bank, to pay an amount of money regularly to another bank account, either at the same account or elsewhere.

Further information

Charity Finance Group

Charity Finance Group (CFG) is a charity and membership organisation which supports charities in their finance related functions and promotes best practice. CFG represents charities on banking issues affecting the sector and runs a quarterly Banking Forum, which brings together charity and banking representatives to discuss areas of mutual interest.

www.cfg.org.uk/Policy/banking.aspx

Financial Ombudsman Service

The official independent expert in settling complaints between consumers and businesses providing financial services.

For more information, see:

www.financial-ombudsman.org.uk or email:
complaint.info@financial-ombudsman.org.uk

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the compensation fund of last resort for customers of authorised financial services firms. If a bank becomes insolvent or ceases trading the FSCS is able to pay compensation to its customers.

www.fscs.org.uk

Useful resources

BBA: Proving Your Identity leaflet

www.bba.org.uk/publication/leaflets/proving-your-identity

Charity Commission: Charities and Investment Matters: A guide for trustees (see section on cash deposits)

www.charitycommission.gov.uk/Publications/cc14.aspx

Charity Commission: Financial Services Compensation Scheme – what it means for charities

www.charitycommission.gov.uk/Charity_requirements_guidance/Charity_governance/Managing_resources/fincomp.aspx

Charity Commission: Internal Financial Controls for Charities Guidance and Checklist

www.charitycommission.gov.uk/publications/cc8.aspx

HM Revenue & Customs: Charities and tax – the basics

www.hmrc.gov.uk/charities/tax/basics.htm

National Council for Voluntary Organisations (NCVO):

Advice and support:

www.ncvo.org.uk/practical-support/financial-management

Scottish Charity Regulator (OSCR)

OSCR is the independent regulator and registrar for over 23,500 charities. OSCR website www.oscr.org.uk has a range of guidance for charities to help ensure they meet their regulatory requirements. In terms of financial control of most interest will be OSCR's Guidance for Charity Trustees and accounting guidance.

www.oscr.org.uk

Scottish Council for Voluntary Organisations (SCVO)

SCVO is the membership organisation for Scotland's charities, voluntary organisations and social enterprises. SCVO website hosts a range of guidance on Financial and Business management that organisations may find relevant.

www.scvo.org.uk

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