

Case Study – inappropriate remuneration

All but one of a charity's seven trustees were being paid and receiving other benefits from the charity. In addition, three of the trustees were related to each other. The charity was also in a weak financial position, with funders saying they would no longer support its work.

What happened?

One of the trustees owned the premises where the charity was based, and received a substantial income in rent for the property. Another trustee who was related to the property's owner was employed by the charity and was paid a salary. In addition, the property owner's partner was being paid for organising one of the charity's projects.

The charity's funders felt that there had been a breach of contract by the charity, given the remuneration and the inherent conflicts of interest, and informed the charity that they intended to withdraw financial support. This placed the charity in a vulnerable position and meant that it faced being unable to meet its financial commitments – including rent.

Outcome

The charity's trustees recognised that they had to take urgent action. They asked their financial advisors to prepare a report with proposals on how to address the situation, and agreed to follow its recommendations.

Several of the trustees who were also employees resigned from the Board and new, independent, trustees were appointed with a wider range of appropriate skills. This meant that the charity was no longer in breach of charity law, which stipulates that no more than half of the trustees may be paid. The owner of the property decided to donate it to the charity, saving it considerable expense. The project being managed by the property owner's partner was shelved until the charity was in a better financial position. The charity also agreed a Conflict of Interest Policy which stated that relatives could not make decisions on remuneration issues for each other; and the charity aimed to secure additional funding by actively seeking new members.

What can you do to protect your charity?

It's vital that you take appropriate decisions and are able to show that you have done so.

- You should at all times be able to show that you are acting in an open and transparent manner.
- You must act in the interests of your charity.

- You must seek, in good faith, to ensure that your charity operates in a manner that is consistent with its objects or purposes.
- You must aim to act with the care and diligence that is reasonable to expect of a person who is managing the affairs of another person.
- You must ensure that your charity complies with [the 2005 Act](#) and other relevant legislation (equality law, employment law, etc).

Guidance and support

- You can read our guidance on charity trustee duties at www.oscr.org.uk
- You can on [Who's in Charge](#)
- You can [find your local Third Sector Interface here](#).