Guidance

Identifying and managing conflicts of interest in a charity

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As a trustee you must make decisions based only on what is in your charity's best interests. This is one of your legal duties. A conflict of interest is when what is in the charity's best interests conflicts with, or may conflict with:

- your personal interests, or
- the interests of people or organisations connected to you

Trustees often have a number of different personal and professional interests. For example, the company they work for or another charity where they are a trustee. These different interests can bring advantages, but they can also raise conflicts of interest.

Conflicts of interest can happen in all types and sizes of charity. The important thing is that you know when conflicts may occur, identify when they do occur and manage them properly each time they occur. The Commission sees too many cases of trustees not being aware that they face a conflict of interest.

Identifying and properly managing conflicts means you can show that you are complying with your legal duties, despite the existence of a conflict of interest.

Some conflicts are less serious; others can be very serious. The more serious or complex the conflict of interest, the more the trustees will need to do to manage it properly. In the most serious cases this may include thinking about whether the conflicted trustee should resign from their trustee role.

It is the responsibility of all the trustees of a charity to manage conflicts of interest, not just the responsibility of the chair or the person who has the conflict. Managing conflicts of interest is one of the 7 legal principles of trustee decision making.

If you don't manage conflicts of interest this could have serious consequences for you and your charity. For example:

- a decision could be challenged and may not be valid. Your charity may lose money as a result and the trustees may be jointly liable to cover the loss from their personal funds
- your charity's reputation could be damaged, making it more difficult to get funding. Even the appearance of a conflict could damage your charity and wider public trust and confidence in charities
- it may be evidence of misconduct and/or mismanagement and the Charity Commission may need to take action

So, understand what a conflict is and how to manage one – before you or another trustee faces a conflict of interest.

This guidance applies to all trustees of charities in England and Wales. This includes corporate trustees.

What is a conflict of interest?

There are two types of conflict of interest:

- a financial conflict of interest ('financial conflict'), and
- a conflict of loyalty ('loyalty conflict')

In this guidance, when we refer to a 'conflict of interest,' we mean both financial and loyalty conflicts.

Financial conflicts

These happen when a trustee, or a person or organisation connected to them (a connected person) could get money – or something else of value such as a service – from a decision that trustees make. The trustee will have a conflict between the charity's best interests and their own interest in either standing to receive the benefit or being connected to a person or organisation that will.

It doesn't matter if the value of the benefit is small: it is still a financial conflict. It is also still a conflict if your charity will get a good deal. For example, if one of the trustees is providing a service to the charity at a reduced cost.

Financial conflicts can happen in a range of situations. For example, where the trustee (or connected person) is receiving money or something else of value as a result of:

- providing the charity with goods or services
- being employed by the charity
- lending money to the charity
- selling or leasing land or other assets (such as equipment) to the charity
- buying or renting land or other assets from the charity
- having a separate paid role at an organisation owned and controlled by the charity. For example, as a director of the charity's trading company

It also involves situations where the trustee will get better access to a service that the charity provides. For example, if a trustee of a village hall charity can use the hall at a reduced rate.

Loyalty conflicts

These can happen when the charity's decision involves a person or organisation connected to a trustee or a trustee goes against established policy. For example:

- a trustee's spouse or civil partner
- a trustees' immediate family and wider relatives
- a trustee's employer
- another charity for which they are a trustee (even if the other charity has the same or similar purpose)
- the organisation that appointed them as a trustee
- a trustee's friends

Such a decision may involve a loyalty conflict because the trustee's loyalty, friendship or responsibility to the other person or organisation could influence their decision making. This means they might not be able to make a decision based only on what is in the best interests of the charity, sometimes ignoring established policy.

Loyalty conflicts can also happen when charities merge or change structure if the two charities share some or all of the same trustees. This means there may not be enough independent trustees on the boards of either charity to manage the conflict of loyalty

Connected person

A connected person is a person or organisation that is connected to a trustee. In broad terms this includes:

- a trustee's spouse or civil partner
- a trustee's immediate family
- a trustee's business partner
- businesses where a trustee has an interest through ownership or influence

For conflicts of loyalty this may also include:

- a trustee's employer
- another charity for which they are a trustee (even if the other charity has the same or similar purpose)
- the organisation that appointed them as a trustee
- a trustee's wider relatives
- a trustee's friends

For some situations, the law states who is a connected person. Check who is a connected person when you are:

- selling or leasing charity land
- providing goods or services to a charity where trustees are using the statutory power
- a charitable company that is transferring or receiving a substantial non cash asset

Your charity's governing document should also state who is a connected person.

If you are not sure whether a person or business is a connected person, you should get legal advice.

Check your charity's governing document

Check if your charity's governing document sets out rules about conflicts of interest, such as:

- declaring the conflict at an early stage
- leaving the relevant discussion
- not taking part in the relevant decision or vote

- not counting the conflicted trustee in the quorum. A quorum is the minimum number or proportion of voting trustees that must attend a meeting to make decisions
- how a conflict can be authorised by the trustees

You should also check if your governing document says that conflicts of interest do not apply to certain transactions.

If your charity's governing document:

- does not contain any rules at all on managing conflicts of interest, or
- contains rules, but these are inadequate **change it.** Don't wait until a trustee faces a conflict

  of interest to do this.

If a trustee does face a conflict, adding rules to the governing document is a legal requirement for charitable companies. Therefore, if your charity is a company, you must amend your Articles of Association to add these rules before you make the decision which gives rise to the conflict of interest.

Read the next section of this guidance to understand how you should manage conflicts of interest. This can help you understand the rules to include in your governing document.

If you have a conflict – a step by step approach to managing it This

section describes how you should manage conflicts of interest.

Follow these steps if your charity's governing document:

- does not contain any rules at all about conflicts of interest, or
- contains rules, but these are inadequate

Step 1 – Identify the conflict

Identify conflicts, or potential conflicts, early. For example, at the start of each trustee meeting. Have this as a rule in your conflict of interest policy so that all the trustees are aware of what is expected of them. Even the appearance of a conflict that has not been managed can damage the charity.

Do not ignore something that might be a conflict for you or another trustee. Talk to the other trustees about it if you're unsure.

Keeping a register of conflicts can also help you identify conflicts early. Have one at your charity and make sure it is regularly updated.

Be alert to trustees having a conflict by making sure all trustees understand what a conflict of interest is and the different situations in which they can arise. For example, where:

- there are trustees at your charity who are connected to other organisations including other charities, which may give rise to a conflict of interest
- there are trustees at your charity who are connected to each other (for example they are related to each other).

Even if your charity is getting a good deal, you must still manage the conflict.

Step 2 - Declare conflicts of interest

You must tell the other trustees if something your charity is proposing raises a financial or loyalty conflict for you. Do this early, before you have any discussions about the matter or make decisions about it.

Have this as a standing agenda item at each trustee meeting. And make sure you record, in your meeting minutes, the trustees who declared a conflict of interest and why.

Step 3 – Consider removing the conflict of interest

As trustees, you must not allow the conflict to affect your decision.

You must consider whether it is in your charity's best interests to remove the conflict. This is particularly important if it is a serious or complex conflict.

You may be able to remove the conflict by:

- not going ahead with the proposal. For example, by deciding not to pay a trustee to prepare the charity's accounts but instead pay an independent accountant
- the trustee with the conflict resigning and then the remaining trustees making the decision. For example, where you are employing the trustee. If the decision giving rise to the conflict involves the former trustee receiving a benefit, the benefit must still be authorised

Step 4 - Manage conflicts of interest

If you decide not to remove the conflict of interest you must manage it so that it does not affect your decision.

You must follow:

- relevant statutory powers (powers in law).
- any directions from the Commission

  As a minimum, for a financial conflict, the trustee affected by the conflict should:

- declare the conflict of interest
- leave the relevant discussion
- not take part in the decision giving rise to the conflict
- not be counted in the quorum

If you are managing a loyalty conflict, there are different options depending on how serious the conflict is. For example:

- requiring the trustee to leave the discussion and decision for all high risk or controversial decisions
- allowing the trustee to provide any relevant information before the discussion, but then requiring them to leave the meeting
- for low risk loyalty conflicts, allowing the trustee to remain in the meeting on condition that they do not take part in the decision or voting.

When you make the decision giving rise to the conflict, comply with the principles of trustee decision making.

Having enough unconflicted trustees to make the decision

Check your governing document for your charity's quorum.

You must have enough unconflicted trustees in the meeting when a conflicted trustee withdraws to make the decision about the matter giving rise to the conflict.

You may need to appoint new, independent trustees if your charity cannot reach the quorum when a conflicted trustee withdraws. You should adopt an open recruitment process to help make sure you appoint trustees who are independent.

Step 5 - Record conflicts of interest

Keep a written record of how you have managed conflicts of interest. You will usually record these in the minutes of your meetings. This will help you show you acted properly.

Make sure you record:

- what the conflict was
- who or what it affected
- when it was declared
- how you managed it. For example, asking the conflicted trustee to leave the relevant discussions and not take part in the decision
- which rules you followed (for example, your charity's governing document, the law, the steps outlined in this guidance)
- that you obtained legal advice, if you did

A conflict of interest policy

You should have a conflict of interest policy to help you:

- ensure trustees understand what a conflict of interest is
- be consistent in how you manage conflicts
- show you are meeting your legal duties
- show you take conflicts seriously, for example to your charity's beneficiaries, supporters, donors and grant-funders

Your policy should:

- refer to your register of conflicts
- include a list of the information you will collect when new trustees join the charity, and annually, to keep your register updated. Ask about potential conflicts of interest before you appoint trustees. In some cases, it will be appropriate not to appoint a person likely to be affected by frequent or serious conflicts

- set out what your charity's rules are, for example that trustees are expected to declare conflicts at the start of trustee meetings. Make sure these are consistent with what your governing document says if it has rules about conflicts
- for non-company charities, explain how your charity will manage conflicts if no governing document or statutory rules apply

You may want to make your policy and some or all of your register of interests available to the public. Make sure you comply with data protection rules if you decide to do this.

Regularly review your policy, so that it continues to meet your charity's needs.

Manage a serious or complex conflict of interest

Some conflicts are so serious or complex that trustees cannot comply with their duty to act only in the charity's best interests. Or they cannot show that they have. For example, where one or more of the following applies:

- all the trustees are conflicted or there are not enough trustees to reach a quorum to make the decision
- the charity has a single corporate trustee (usually a company or a local authority) which is conflicted
- the decision giving rise to the conflict involves significant money or assets
- the decision giving rise to the conflict involves significant risk to the charity, including reputational risk
- the decision involves complex transactions. For example transactions that involve one or more companies that are connected to the trustees

It is important that you recognise if a conflict is serious or complex and what this means. For example, you may need independent professional advice about the proposal to be able to show that the decision is in the charity's best interest. This will be important if you need Charity Commission involvement.

To manage the conflict of interest you should consider:

- if you should go ahead or whether you can change your plans
- the conflicted trustee resigning. The remaining trustees would then make the decision giving rise to the conflict. Check if you can meet your charity's quorum. If the decision involves a benefit to the former trustee, this must still be authorised
- appointing new, independent trustees not affected by the conflict

It will not always be possible to change your plans, and it may be in your charity's best interests to go ahead. For example, a decision to merge two charities though the trustees are conflicted because they are trustees of both charities.

But your decision not to change your plans, or to remove the conflict in some other way, must be in the charity's best interests. You must identify the risks of going ahead and how you will manage those risks. For example, the risk of public criticism.

If you decide to go ahead, you must manage the conflict of interest:

- you must make sure you comply with what your governing document says
- you must comply with any legal rules that apply to your charity or the decision you are making

Get legal advice if you're unsure about how to manage the conflict of interest.

If the trustees cannot manage the conflict themselves, you must get authority from the Charity Commission. **Legal note**

The main sources of law relevant to this guidance are the Charities Act 2011 and common law.

There are other legal rules that apply specifically to charitable companies and CIOs:

- if your charity is a company, the rules set out in the Companies Act 2006
- if your charity is a CIO, the rules set out in the Charitable Incorporated Organisations (General) Regulations 2012