



HFMA briefing
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Streamlining NHS charitable funds

Lessons learned from experience

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Background

Fund accounting is a key feature of charity accounting. The number of funds that each charity manages will be based on restrictions imposed by donors as well as trustee(s) decisions.

Many NHS charities hold lots of small funds and some have undertaken a one-off exercise to review and rationalise or streamline their funds in order to achieve better value from the use of charitable donations. It is good practice to review the number and purpose of funds periodically.

This briefing sets out the lessons that have been learned from these exercises.

Fund accounting

The *Accounting and reporting by charities: statement of recommended practice* (SORP FRS 102)¹ defines funds as:

‘Funds is a legal term for the money and other assets held on trust. Each fund is a pool of resources that is held and maintained separately from other pools because of the circumstances in which the resources were originally received, or the restrictions on that fund which determine the way those resources are subsequently to be treated.’

There are three classes of charitable funds:

- unrestricted funds
- restricted funds
- endowment funds.

Unrestricted funds

These are funds that may be spent at the discretion of the trustee(s) in line with any of the charity’s objectives. Unrestricted funds may also be ‘designated’ or ‘earmarked’ which means that trustee(s) can set aside funds for a specific purpose or, more typically, for an operational area such as cardiology, urology, or nursing staff benefits. Trustees can also decide to remove a designation or earmark from unrestricted funds, so these funds are the most straightforward to streamline.

Where designated funds are material, they must be disclosed separately in the accounts.

Restricted funds

These are funds that can only be spent in accordance with written restrictions imposed when the funds were donated or granted to or in accordance with the specific terms of the appeal raised for the charity.

Restricted funds can also be designated by the trustee(s) for specific purposes that fall within the wider restriction on the fund. When this happens, the term ‘earmarked or designated restricted funds’ should be used as this reduces the potential for confusion.

Trustees cannot easily remove restrictions, so it is important to maintain all documentation related to restrictions to ensure that the funds are used as directed by donors.

Using a standard form of receipt and ensuring that staff know how to deal with unsolicited donations reduces the risk that restricted funds will be inadvertently established. A standard receipt, or donation envelope, that invites donors to record how they wish their donation to be used ‘without imposing any

¹ Charity Commission for England and Wales, The Charity Commission for Northern Ireland, OSCR, [Charities SORP \(FRS 102\)](#), effective 1 January 2019

trust' means that the donor's wishes can be reflected through the designation or earmarking of donations, but donations on these terms will be unrestricted². An example receipt is reproduced as appendix 2 (page 76).

Such a receipting system can also assist with accountability and the receipt can incorporate an invitation to donate under Gift Aid arrangements. An alternative is to use an envelope which is used to collect the donation and has a tear off slip to be used as a receipt. An example of this is included in appendix 2

Endowment funds

Endowment funds are capital funds that the trustee(s) are legally required to invest or retain. Endowment funds can be:

- permanent³ which means trustee(s) have no automatic power to spend the capital. Trustees can only spend the income generated through the endowment's investment unless they apply for and are given consent by the appropriate regulator or, in England and Wales, by resolution following the Trusts (Capital and Income) Act 2013) or
- expendable where the trustee(s) can convert the capital to income and spend it on the fund's purposes. The terms of the gift should state whether the income is restricted in use or is unrestricted and available for any purpose.

Provisions in the Charities Act 2022⁴ will simplify the arrangements for spending permanent endowments once they come into force in Spring 2023⁵.

This briefing concentrates on streamlining designated and restricted funds. Reviewing and amending endowment funds should be undertaken as a separate exercise – this briefing will be useful but additional advice should be sought in relation to changing the endowment.

Managing and reviewing funds

Charities have a duty to spend the money that has been donated to them within a reasonable time of receiving it while also meeting their own reserves policy. This is the case for all funds and not simply unrestricted, undesignated funds (sometimes referred to as general funds).

In many cases, designated or restricted funds are seen to 'belong to' a particular ward or service. However, it is the trustee(s)' responsibility to keep all funds under review and decide how the funds should be best used to meet the objectives of the charity within the wishes or requirements of the donors.

Best practice is for there to be a clear policy in place for the review of funds – this should be consistent with the charity's reserves policy to ensure that it is applied appropriately across all the charity's funds. For example, some NHS charities review all funds that have not been spent within a specified time period – this could be a year or a number of years. Others review funds where expenditure is less than a specific percentage of the value of the fund in a specific time period.

The amount of time that funds can be held for is for the trustee(s) to determine. It may be helpful to gather some evidence for what a reasonable time might be. For example, one fundraiser⁶ simply walked around the hospital site and spoke to people including staff, patients and visitors as well as donors to determine how long charities should take to spend donations. Their feedback was invaluable in discussions with members of the charitable funds committee as well as fund advisers.

Where there has not been a rolling review of funds, some charities undertake a one-off exercise to review and then streamline or rationalise their funds.

² The HFMA [Practical guide - NHS charitable funds](#) includes further information on best practice in receipting donations and an example receipt

³ Charity Commission for England and Wales, [Permanent endowment: rules for charities](#), updated December 2014

⁴ [Charities Act 2022](#)

⁵ Department for Digital, Culture, Media and Sport, [Charities Act 2022: implementation plan](#), updated October 2022

⁶ HFMA, [Charitable funds conference](#), October 2022

Where this is the case there needs to be a clear reason for undertaking this exercise. Reasons could include:

- trustee(s) will be able to better manage the funds if there are less of them
- it will be clearer for donors to understand how and where to donate to the NHS charity
- there are slow-moving funds where there does not seem to be a long-term plan to use them
- the funds are so small that it is difficult to use them effectively in accordance with the charity's objectives
- there are a number of funds that are managed by the same fund adviser
- the associated NHS body has changed the way that it operates, for example, wards that have specific funds attached to them are closed or reorganised or new wards are opened
- as a housekeeping exercise to ensure that funds are being well used, with a view to implementing a rolling programme.

It is important that the trustee(s) articulate the reasons for undertaking the exercise as this will form the basis of communication with fund advisers, donors, and fund raisers.

While it is important to remain flexible, trustee(s) should also decide some metrics by which they will measure the success of the project. It may not be sensible to decide on a specific number or structure of funds at the outset, but it may be that success will be determined to have been achieved if charitable expenditure increases in the next year or reserves are reduced. Another measure of success may be that funds that were dormant have been reinvigorated or that fund advisers/ staff have become more engaged and active.

Performance against the planned outcomes should be reported to trustee(s) at the end of the project as part of making funds review business as usual.

Often NHS charities have policies and procedures in place for opening new funds or for managing funds. There also needs to be a documented process for closing funds so that the process becomes part of the normal business of managing charitable funds.

The decisions made by the trustee(s) should be documented throughout the process so the reasons for particular decisions are clear. The Charity Commission for England and Wales has useful guidance on decision making for trustees⁷ as well as risk management for trustees⁸.

Communication

A continuous dialogue with those interested in the funds should be maintained and it may be that the final decisions may be subject to consultation before the trustee(s) make the final decision. While the trustee(s) are responsible for the management of the funds, the importance of the people who raise the money and benefit from the charity cannot be underestimated.

Fund advisers and staff accessing funds

NHS charities often receive donations where services are provided - on a ward or at a clinic. As a result, within an NHS charity, multiple funds can build up in for separate services, clinics, or service users, potentially all administered by a different fund adviser.

Fund managers and staff sometimes feel that these funds are 'their' money that they decide how to spend. It is therefore important that the reasoning for and advantages of any rationalisation exercise are explained to staff. One of the major advantages of streamlining funds is that there may be more opportunity to use charitable funds if they are held in a smaller number of larger funds.

Communication needs to be two way – fund advisers and staff should be asked why they are not using particular funds. This may be due to not knowing what funds are available and what they can be used for, or it may be simply due to not having the time to administer funds.

The process for applying to access the funds needs to be very clear, and consistent, so that staff can access any of the charitable funds using a straight forward and simple process. As part of the wider

⁷ Charity Commission for England and Wales, [It's your decision: charity trustees and decision making](#), May 2013

⁸ Charity Commission for England and Wales, [Charities and risk management \(CC26\)](#), June 2010

review, the process for accessing funds must be reviewed and established at an early stage. This should include guidelines for the type of expenditure that the trustee(s) decide can and cannot be funded from the charitable funds⁹. For example, some NHS charities have a policy that retirement gifts or events are not funded, others fund retirement gifts to a certain value. These decisions need to be made by the trustee(s) and applied to all funds consistently.

Larger NHS charities are now using an online grant application process so that any staff member can apply for charitable funds. This reduces the administrative burden on fund advisers, opens access up to all staff rather than fund advisers and increases the profile of the charity. This may not be practical for smaller charitable funds, but the process should still be clear and streamlined.

The process for spending funds should also include delegated decision-making limits so it is clear what expenditure can be approved by fund advisers and what needs to be approved by the trustee(s).

Donors and fund raisers

There is a risk that donors will be put off if it is not clear where their donations end up¹⁰. Posters and leaflets can help reassure them that any gifts they leave will benefit those who have provided the care or other patients with similar issues.

Recent research in Scotland¹¹ identified that one of the reasons for supporting an NHS charity is that the fundraisers like the fact that it is a local cause, and they know where their donations are being used. Part of the review should consider whether particularly well supported funds should remain unchanged.

The method of collecting and receipting donations needs to be considered so that donors can express their wishes for the use of their donation without creating a restriction. In order that donor's wishes are complied with it is important that they are documented as part of the donation receipting process. One way to do this is to use a standard form of receipt that invites donors to record how they wish their donation to be used 'without imposing any trust'.

Fund raising materials must be clear that the funds will be used for the purposes of the charity rather than a specific fund or appeal. Where appeals are targeting at specific purposes, it is important that the associated materials are clear about what will happen to any surplus funds or if the appeal does not reach its target¹². The Charities Act 2022 also brings in new arrangements, in England and Wales, to deal with failed appeals that either raise too little or too much money.

Where to start

Experience is that this is, in part, a housekeeping exercise. For each fund:

- collate all
 - the evidence available relating to donations
 - other documentation relating to the purpose of the fund
- consider fund advisers' plans for each fund
- review each funds' transaction history for at least the past three years
 - this may need to go further back if restricted donations were received some time ago to check whether those restricted donations have been spent meaning that the fund is no longer restricted
- review the balance on the fund for at least three years, if not five to determine the activity on the fund
- consider who needs to be involved in the exercise, whether that is fund advisers, patients, staff and/ or other advisers such as internal and external audit.

⁹ HFMA, [Using NHS charitable funds](#), April 2020

¹⁰ HFMA, [NHS charities \(England and Wales\) - good practice in handling cash donations](#), July 2017

¹¹ Scottish Government, [Review of NHS endowment funds: review report](#), October 2021 (page 1 and paragraph 5.20)

¹² Charity Commission for England and Wales, [Charity fundraising: a guide to trustee duties \(section 9.3\)](#), June 2016

The Charity Commission for England and Wales issued guidance in 2012¹³ that sets out a process for reviewing funds. This guidance should be used as part of this process. This briefing summarises the experience of our members that have undertaken this exercise.

It is easiest to look at unrestricted, designated funds first. Where there has been little or no activity on the fund for the past three years and there are no plans to use the funds, the trustee(s) may decide to remove the designation and release these funds back into the unrestricted, undesignated general fund. This decision must be documented in the minutes of a trustee(s) meeting. It should be communicated to the fund advisers along with guidance on how the funds can be accessed.

Where there have been no transactions the fund is inactive. Trustee(s) will need to decide whether there is a threshold, either in terms of numbers or value of transactions, for funds to be considered inactive.

Where there are multiple funds with very similar purposes – for example, a separate fund for each ward in a directorate then trustee(s) may decide that the funds could be more effectively used if they were amalgamated into a single fund with a common purpose. This could be done by amending the designation to be broader so that several funds can be collated under the new wider designation.

For restricted funds, the evidence of the restriction needs to be considered. Where the fund was established with a clearly restricted donation, then whether that donation has been spent and subsequent donations are unrestricted should be reviewed. If the restricted donation has been spent, then the fund is no longer restricted.

In practical terms, the first donation that established the restricted fund should be identified. Ideally, there will be documentation associated with that donation, but experience is that often this documentation is not available. If subsequent expenditure on the fund is greater than the original donation, then this is evidence that the restriction no longer applies, and the fund is actually unrestricted in nature. That is, of course, unless there is a subsequent restricted donation.

Where there is a clearly restricted fund that has not been used then it may be more practical to simply spend the fund down. So, rather than adding any other unrestricted donations to that fund the restricted money is used for the purposes it was given for.

Where the documentary evidence for the restriction cannot be located then the Charity Commission guidance suggests that the funds can be properly reclassified as unrestricted.

The movement of funds from restricted to unrestricted should be discussed by the trustee(s) and clearly documented, along with the evidence used to support the decision.

Group or umbrella regulations

When NHS charities were first registered with the Charity Commission for England and Wales, many were established as a 'group registration' (also referred to as an 'umbrella'). This meant that there was a single trust fund intended to receive donations for general purposes and, within that group registration, designated funds for particular areas and restricted funds (for example, in the case of a hospital, research, named wards, children's services etc.). The group had a single charity number but each of the funds had a separate suffix and had its own charitable objectives which were narrower than the main charity's purpose, for example, for patients treated in a specific ward.

Most NHS charities have closed down the separate designated funds, instead accounting for them as separate funds in the main charity where necessary. NHS charities that wish to consolidate their group/umbrella funds should review the 2012 Charity Commission for England and Wales guidance before contacting the Commission for advice. Again, an alternative approach is to spend down these umbrella funds while putting new donations into the appropriate fund in the main charity.

¹³ Charity Commission for England and Wales, [NHS charities guidance](#), 2012 – section 6

Accounting requirements

SORP FRS 102 states that the differentiation of funds is an essential feature of a charity's accounts. Therefore, any changes to funds will have to be reflected in a charity's published accounts and their underlying financial records.

Underlying financial records

As the fund review progresses, a new fund structure will be established. Each fund needs to be clearly identified in the chart of accounts by type – restricted, unrestricted, permanent endowment or expendable endowment, designated, or earmarked.

The mechanism for moving balances between funds is a transfer of funds. SORP FRS 102, paragraph 2.26, sets out the reasons that funds can be transferred between funds. These include where restricted funds have been lawfully released and transferred to unrestricted funds.

Funds transferred between the same type of fund (for example, unrestricted to unrestricted) is the removal or alteration of a designation that will need trustee(s)' approval.

Transfers between different types of funds, such as restricted to unrestricted, will be disclosed on the face of the statement of financial activities (SOFA)

A decision will need to be taken whether to continue to use existing funds and transfer into those existing funds or whether to establish new funds and transfer funds into those. It is important that regular donations, for example, those by standing order are transferred to the appropriate fund and that gift aid on donations also follows the donation to the appropriate fund.

Annual accounts

The SORP FRS 102 requires that the SOFA is analysed between unrestricted, restricted income and endowment funds. Transfers between these types of fund will be disclosed on the face of the SOFA and, if the movements are material, will need to be explained.

The SORP requires that the notes to the accounts include information on material individual fund balances, movements in the year and prior year for these funds and information about the purposes for which the funds are held.

Where material funds have been affected by the rationalisation, this will need to be disclosed and explained. Consideration needs to be given to whether this should be accounted for in year or as a prior period adjustment.

The transfer of funds is not a change in accounting policy. The accounting policy is to account for funds separately – rationalisation of funds is a change in the management of those funds rather than a change in accounting policy.

Where there has been a court order, regulatory scheme or order then the reclassification is an in-year transaction as it is reflecting that decision.

Any decision made to rationalise the funds should be made by the trustee(s) and appropriately documented. Unless it is the correction of an error, it is actioned in the year. This means that prior period comparatives do not need to be amended but there will need to be a narrative explanation for why the year-on-year comparatives look different.

It may be that the review identifies an error and, where it is material, this will need to be adjusted though a prior period adjustment (SORP FRS 102, paragraphs 3.36 and 3.47). An error would be that a fund that has been treated as restricted was, in fact, not restricted.

However, the trustee(s) should consider if this approach is the best presentation for the accounts to be 'true and fair' (FRS 102 section 3 paragraph 3.1 and SORP FRS 102 paragraph 3.42). If the trustee(s) have kept the regulator informed and the regulator does not consider it a matter to exercise its powers or to refer to the courts then the trustee(s) need to consider if the scale of the restatement between years would be such as to potentially confuse the reader of the accounts. A better presentation may be to treat it as an additional transfers line (SORP FRS 102 paragraph 2.26)

supported by an explanation in the required funds note (SORP FRS 102 paragraph 2.29) along with the required explanation for the departure from the SORP (paragraph 3.42).

It may be the accounting policy was consistently mistakenly applied and funds that should always have been designated have been treated and described as though these were restricted funds. A large-scale prior year restatement due to the improved approach now being taken to fund governance should be highlighted. Accounting for it as the correction of error may mean it looks like a technical accounting matter in the notes to the accounts which may make the exercise less visible to the reader (particularly a non-accountant). This needs to be discussed with independent examiners/ auditors to ensure that the accounts are clear and meet the accounting requirements.

Where there is no evidence relating to the original restriction, then the accounting treatment will need to be discussed with independent examiners/ auditors. It may not be clear whether there was an error or not. In the absence of any evidence as to whether there was an error or not, the decision of the trustee(s) as a result of the streamlining exercise may be the most appropriate date for accounted for the transfer between funds.

It is important to discuss how the rationalisation of funds will be accounted for with both trustees and the independent examiner/ auditor.

The rationalisation of funds may impact on the reserves note. Removing a designation does not alter the type of fund. However, it may impact on the level of reserves that the charity has available for general purposes. This needs to be considered when determining the charity's reserves policy and reporting the level of free reserves available at the year-end. It will also need to be explained in the reserves note in the charity's accounts.

After the review

Once the review has been completed, then the proposed new fund structure will need to be formally agreed by the trustee(s) at a meeting.

Prior to putting the changes in place, trustee(s) will also need to:

- consider who will be the fund adviser(s) for each fund or whether fund advisers will be needed going forward
- review and agree delegated limits for fund advisers
- decide whether funds will be streamlined from a particular date or whether some funds will be allowed to run down with no new donations being made into them
- review arrangements for accepting and acknowledging donations so that new funds are not established inadvertently
- review and update fundraising materials to reflect the new fund structure
- update and publicise the mechanism for accessing funds so funds do not stagnate – for NHS charities this is likely to be a grant application process
- put in place arrangements to review funds on a regular basis against particular metrics that includes the possibility of establishing new funds as well as closing existing funds
- update procedures to include how funds are closed down, as well as how they are opened and managed
- train fund advisers and other staff in the new arrangements
- review the whole project against the objectives and metrics set out at the start.

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About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For nearly 70 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

The HFMA offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The qualifications are delivered through HFMA's Academy which was launched in 2017 and has already established strong learner and alumni networks.

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