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# Preparing the Trustees' Annual Report & Financial Statements

*One of a Series of Guidance Leaflets for Small Charities*

## The Scope of These Guidance Leaflets

The title of this series of leaflets has been inspired by the 1960s (but even more relevant today) iconic book, [Small is Beautiful: Economics as if People Mattered](#), by E.F.Schumacher.

This leaflet is one of a series which give an overview of the various things that you will need to take into account in managing the money of a small charity. They are NOT a full and comprehensive guide to Charity Law and all the associated regulations. They are just an overview, in simple everyday language (rather than legalistic & accountancy jargon) of the main points for those who want to run their small charity efficiently and effectively for the benefit of their local community, or to help trustees who have encountered a common difficulty.

So if your charity's annual income is more than £150,000/yr, or it owns property, or employs more than 3 staff, or is required to produce accruals accounts then you will probably need to seek professional guidance elsewhere.

The topics covered in this series are:

- What Accounts ALL Small Charities MUST Keep**
- The Role of the Charity Treasurer (and assistants)**
- Recording & Managing Your Charity's Funds**
- Budgets & Cash Flows**
- Financial Controls Checklist**
- Preparing the Annual Report & Accounts – Receipts & Payments {This Leaflet}**
- A Bank Account**

Other guidance leaflets for small charities (or people looking to set up a new small charity) available elsewhere on the Small Charity Support website ([www.smallcharitysupport.uk](http://www.smallcharitysupport.uk)) include:

- |   |                                 |
|---|---------------------------------|
| Outputs & Outcomes                      | Charitable Purposes/Objects     |
| Governing Documents                     | Trustees & Officers             |
| The "Minute Book"                       | Policies & Procedures           |
| Business Planning & Risk Management     |                                 |
| Registering with the Charity Commission | Gift Aid Registration with HMRC |

**Note:** Throughout the rest of this leaflet, links to other information (eg: articles and documents on other websites) are provided as footnotes rather than in the main text.

**A Word of Warning:** Internet search engines do not always show the latest Charity Commission guidance as the first item in their search result. To get to the latest guidance it is recommended that you always go to the Charity Commission Home page and from there click on the link to its (CC) Guidance Page.

# Contents

This leaflet is quite long. So it is not anticipated that you will read it “from cover to cover”. Instead, use the index of contents below to “dip into” the leaflet for specific guidance on writing specific sections of a Trustees’ Report as and when you need it.

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Your comments and suggestions (to [comments@smallcharitysupport.uk](mailto:comments@smallcharitysupport.uk)) as to how this leaflet could be improved to make it simpler and clearer would be much appreciated.

# Preparing the Trustees' Annual Report & Financial Statements

## 1. Introduction

The leaflet applies **ONLY** to charities which prepare their accounts on a Receipts & Payments basis and are not required to have them audited. *ie:* charities with an annual income of less than £250,000 and which are either unincorporated organisations or Charitable Incorporated Organisations and can have their accounts Independently Examined.

This leaflet is based on the Charity Commission's guidance publications "*Charity reporting and accounting: the essentials November 2016 (CC15d)*"<sup>1</sup>, and "*Trustees' annual report template (SORP 2005)*"<sup>2</sup>, both of which can be downloaded from the Commission's website.

## Two Common Misunderstandings

It is commonly thought that:

- 1: if an unincorporated charity is below the threshold for submitting a Trustees' Annual Report & Financial Statements to the Charity Commission it doesn't have to prepare "proper ones" – rough notes will be sufficient;
- 2: the Trustees' Annual Report is just the Chair's reports to the members at the AGM.



Both are **WRONG!**

But take comfort – if you thought either of the above were the case you would not be the only charity.

Several years ago (thought to be April 2016) the Charity Commission produced an undated review titled "*Accounts Monitoring Review: The Quality of Small Charity Accounts*"<sup>3</sup>.

The review was of the Annual Report & Accounts which the Commission had specifically requested from 108 small charities with annual incomes less than £25,000 which were therefore not required to submit their Report & Accounts automatically (*ie:* without them being requested).

The review found that more than half (53%) were NOT of "acceptable quality" – *ie:* were not consistent with the Charity Commission's guidelines. And some appeared to have been hastily prepared only in response to the Commission's request for them.

The review concluded:

*This suggest that some trustees of small charities are not aware that they are required to prepare sets of accounts in addition to completing an annual return.*

*While small charities have been relieved of the administrative task of filing their annual report and accounts with us, they have not been relieved of the legal responsibility to produce them.*

A more recent (undated, but apparently early September 2018) report by the Charity Commission<sup>4</sup> reviewed a sample of 106 (just 0.17%) of the Annual Reports & Accounts submitted by charities with financial years ending in 2015 and an annual income over £25,000.

That review showed that 26% of the Reports & Accounts submitted were not of acceptable quality – *ie:* failed to meet the basis standards set by the Charity Commission. The main (11%) reason for the

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<sup>1</sup> *Charity reporting and accounting: the essentials November 2016 (CC15d)*

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/571142/CC15d.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/571142/CC15d.pdf)

<sup>2</sup> *Trustees' annual report template (SORP 2005)*

<https://www.gov.uk/government/publications/trustees-annual-report-template>

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<sup>4</sup> *Do Charity Annual Reports & Accounts Meet the Reader's Needs?*

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/729585/Accounts\\_monitoring\\_charity\\_accounts\\_quality.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/729585/Accounts_monitoring_charity_accounts_quality.pdf)

Review finding the Report & Accounts unacceptable was that the Report “...provided little or no information on the charitable activities carried out”.

Two other reasons for unacceptability given by the Review were:

- (1) inappropriate wording of the Independent Examiner’s report (5%);
- (2) accounts which were incomplete or did not balance (5%).

both of which seem to indicate failings in the independent examination (how could a competent examination fail to miss the accounts being incomplete or not balancing?)

The typical “amateur” trustees of small charities usually rely heavily on the “professional” competence of their independent examiner for assurance that their accounts (and accompanying trustees’ report) are “up to standard”. So it seems that independent examiners are as likely to approve “unacceptable” accounts as trustees are to produce them (assuming, of course, that the trustees actually prepared their own report & accounts rather than leaving it to their Independent Examiner).

## The Role of the Independent Examiner

All the Trustees’ Annual Reports & Accounts reviewed by the Charity Commission in its latest (2018) review (referred to earlier) would have been independently examined under the pre-December-2017 Directions for the examination of charity accounts. Direction 3 states:

*“The examiner shall obtain an understanding of the charity’s .....activities and nature of its .... incoming resources and application of resources....”*

It is therefore difficult to see how the independent examiner could have complied with that Direction where the Report “...provided little or no information on the charitable activities carried out”.

Direction 3 of the pre-2017 Directions has been superseded by Direction 4 of the new 2018 Directions<sup>5</sup> which, even more onerously, states:

*“... the examiner must review: .... the charity’s activities in the year and spending and the financial risks the charity “*

The Direction then goes on to expand that, saying:

*4,5 The examiner is recommended to include .... discussions with trustees and, where appropriate, the charity’s staff, to understand the activities, structure, aims and objectives by which the charity seeks to achieve its objects for the public benefit*

In that context it is difficult to avoid concluding (though the Charity Commission will, no doubt, vigorously deny it) that the role of the Independent Examiner is to be the Commission’s “police man, or woman”. *ie*: they should be: \* knowledgeable about “the law”; \* on the lookout for situations where the law might be broken; \* on hand to help prevent any unintentional breaking of the law; \* reporting the evidence of intentional breaking of the law.

But, also like the Police, the Independent Examiner is not the “judge and jury” to make the final verdict on whether the charity has, or has not, complied with its obligations under charity law.

## What is Required

Any organisation or group (whatever its size, however small) which calls itself a charity (whether or not it is registered with the Charity Commission) is required by the Charities Act to produce every year a written Trustees’ report on its activities, and to keep “proper” accounts showing where its money came from and how it was spent in accordance with its charitable purposes for the public benefit.

**AND** even if those Annual Reports & Accounts do not have to be sent to the Charity Commission each year, they must still be readily available to show to the Charity Commission on demand (as demonstrated by the above Review).

**AND** they must also be made available to any members of the public who reasonably want to see them, including potential funders when applying for a grant or other form of funding.

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<sup>5</sup> *Independent examination of charity accounts: Directions and guidance for examiners (CC32)*  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/672779/CC32 - Independent examination of charity accounts.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/672779/CC32_-_Independent_examination_of_charity_accounts.pdf)

## So What's the Problem ?

### Getting it Right is NOT Difficult !

For the “ordinary” Trustees of small charities, week-on-week voluntarily donating hours of their time to running their charity's activities for the benefit of other (and the “Public”), the Charity Commission's guidance on producing a Trustees' Annual Report and Financial Statements can seem to be tediously bureaucratic and nit-picky. That is not helped by the fact that much of the guidance is convoluted, self-contradictory, complex (written for large charities with teams of paid administrators and professional advisors) – and at times simply WRONG.

But get to the basics of what is required and it's not as difficult as it might sound.

You **DON'T** need to be a “professional expert” to do it (or waste your charity's money on employing one). You just need to be a bit methodical and persistent. **And if you are enthusiastic & responsible about what your charity is doing for the benefit of others, that's already 2/3<sup>rd</sup>s of what is required.**

### The Chair's Report

Unfortunately, a common reason why Trustees get their Annual Report wrong is simply because nowhere is it clear in the Charity Commission's guidance literature that the formal Trustees' Annual Report & Financial Statements and the Chair's report to the members at the AGM are NOT “one-and-the-same” thing. They serve quite different purposes for quite different situations.

The Chair's report to the members at the AGM is very much an “internal” report – an opportunity for the Trustees & members to reminisce about all the wonderful things that the charity has done and achieved – an important and valuable opportunity to give well-deserved “pats on the back” to those who have contributed those little personal touches that make the charity so successful and so rewarding to work and volunteer with – *eg*;

Mr & Mrs Brown who always provide such lovely tea & cakes for committee meetings;

Mr & Mrs Smith who worked late into the evening to ensure that all the gifts to the toy collections were nicely wrapped for distribution to children in need.

And because the Chair's report is to an “internal” audience who are already familiar with the charity's objects, what it does, who it works with and – to a considerable extent – what it achieves, there is little need to go into all the “technical statistics” of KPIs (Key Performance Indicators), targets achieved (or missed), financial surpluses or deficits (provided that the charity is not in financial difficulties) .

Indeed, many members wouldn't want to be bothered with all those little “technicalities”. It's the “thank-you”s, the words of appreciation, the recognition of jobs well done, the sense of achievement, which are so important for everyone's morale and continued support & enthusiasm.

### The Trustees' Annual Report

By contrast, the Trustees' Annual Report & Financial Statements is very much an “external report”. It is the Trustees putting on public record the detail, with supporting evidence, of how the charity has achieved value-for-(donors') money in delivering the charity's purposes/objects for the public benefit.

To quote from Section 3.4 of the Charity Commission's guidance, Charity Reporting and Accounting: The Essentials (CC15b)<sup>6</sup>:

*The report's audience is not just trustees and members, funders, donors and beneficiaries, but also the wider public who have an interest in what charities do and what they achieve.*

*..... Importantly, it brings the charity to life and for those charities that rely on voluntary income as their primary source of funding provides donors with the opportunity to understand how their money was spent and the difference it has made.*

So it important that the Trustees' Annual Report is written on the premise that the reader has little or no prior knowledge of what the charity does on a day-to-day basis. Activities must be presented within a context which gives the readers sufficient background information to enable them to understand why those activities were undertaken and the constraints on delivering them efficiently, effectively and economically. And the achievements must also be presented with sufficient

<sup>6</sup>

<https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-cc15b>

information to enable all readers to appreciate how the activities delivered value-for-money benefits to both the individual recipient beneficiaries and the general public.

It also forms an important historical record of the charity's activities – documenting its successes, and how they were achieved (and, Yes, its failures too – what caused them and what has been done to prevent them recurring). So it's a vitally important record for new Trustees joining the charity, and valuable, too, for funders/donors to be able to see the charity's track-record of effective use of its funds (particularly when applying for new grants/donations).

So, in complete contrast to the Chair's "internal" report to members, the Trustees' Annual Report & Financial Statements will have a much greater focus on the "technical statistics" (KPIs, financial surpluses/deficits, targets achieved/missed) and less (if any) focus on thanking Mr & Mrs Brown for their tea & cakes.

### **Guideline Ambiguities**

Nowhere in the Charity Commission's guidance materials on writing a Trustees' Annual Report is that difference between a "Chair's Report" and a "Trustees' Report" made explicitly clear.

There is a comment :

*"A chair's statement or notes of an annual general meeting does not constitute an annual report."* only appears in the Commission's review of *"The Quality of Small Charity Accounts"*<sup>3</sup> as part of the Commission's criticism of inadequate Trustees' Annual Report. But that publication is a report rather than guidance and, therefore, is "below the radar" of the Trustees of most small charities

The above misunderstandings on what a charity report is for is just one example of an ambiguity problem that is, unfortunately, rather common in the guidance put out by the Charity Commission.

For the Trustees of small charities who are not "deeply immersed" in the legal & accountancy jargon & practices of the charity world, such ambiguities can (and often do) cause unintended mistakes and lack of clarity in Trustees' reports.

In this guidance leaflet we will try to avoid such ambiguities. And we will also try to explain common ambiguities when they occur in other materials (look out for the emoji to the right). Please let us know (by e-mailing to [ambiguities@smallcharitysupport.uk](mailto:ambiguities@smallcharitysupport.uk)) if you think we have failed, or missed something, and we will try to rectify that for the benefit of others.



### **The Charity Commissions Example Report – The Westbeach Youth Club**

To assist the Trustees of small charities (ie: those with an annual income less than £250K and preparing their accounts on a Receipts & Payments basis) in preparing their charity's Trustees' Annual Report & Accounts the Charity Commission has produced a example report based on a typical unincorporated association charity, the Westbeach Youth Club.

The example can be found on the Commission's web page

*"Example trustees' annual reports and accounts for charities"*

<https://www.gov.uk/government/publications/example-trustees-annual-reports-and-accounts-for-charities>

Until quite recently (ie: January 2019) the example report provided by the Charity Commission was significantly out-of-date (2009) and contained a number of serious errors.

As a consequence of Small Charity Support submitting to the Charity Commission a detailed critical review of the old example report it has now been updated (2017) and most of the flaws in the Trustees Report have been replaced by something more appropriate.

However, the numbers in the accounts have not be altered.

Whilst the new (2017) version of the WestbeachYC model Trustees' Annual Report & Accounts is undoubtedly a significant improvement on the previous (2009) version, it is not (in the opinion of Small Charity Support) a "shining example of an exemplary report" and recommends that other small charities should not be over-enthusiastic in seeking to replicate its style and content.

## **2. What the Trustees' Annual Report MUST Contain.**

What ALL Trustees' Annual Reports MUST cover is set out in the Charity Commission's guidance referred to earlier<sup>1</sup>. As is common with many of Charity Commission guidance leaflets, it is written for

a range of charities. So readers from small charities have to plough their way through and filter out a lot of material which is only relevant to the minority of large charities.

So the following is a direct extract from the Commission's guidance<sup>1</sup> of just those parts which are relevant to the small charities to which this leaflet applies.

However, some of the mandatory requirements for larger charities also represent good practice for smaller charities where the guidance is optional. In those cases, the requirement has been included in the list below – *but in purple italic text and as a recommendation rather than a requirement.*

## Reference & Administrative Details

Charities must report:

- ✓ the charity's name, which in the case of a registered charity means the name under which it is registered; any other name which a charity uses should also be given;
- ✓ the charity registration number;
- ✓ the address of the principal office of the charity;
- ✓ the names of all those who were the charity's trustees or custodian trustees on the date the report was approved AND the name of any other person who served as a charity trustee or custodian trustee in the financial year in question.

*Note: Where the disclosure of the names of any charity trustees, custodian trustees, senior staff member, or persons with power of appointment, or of the charity's principal address could lead to that person being placed in personal danger (for example in the case of a women's refuge), the charity trustees may dispense with the disclosure provided that the commission has given them authority so to do.*

## Structure, Governance and Management

The annual report should provide the reader with

- ✓ particulars, including the date if known, of the nature of the governing document (*eg*: trust deed, memorandum and articles of association etc);
- ✓ where any person or external body is entitled to appoint 1 or more charity trustees, the report should explain this and give the name of that person or body;
- ✓ *It is NOT a requirement, but it **IS** good practice, to describe the policies and procedures for the induction and training of trustees and where no such policies have been adopted, a statement to that effect should be made.*

## Objectives and Activities

The report should provide information to help the user understand how the charity's aims fulfil its legal purposes, the activities it undertakes and what it has achieved.

All charities must provide in a brief summary:

- ✓ a description of the purposes of the charity;
- ✓ the main activities undertaken by the charity to further its charitable purposes for the public benefit;
- ✓ a statement by the charity trustees as to whether they have complied with the duty to have due regard to guidance on public benefit published by the commission;

*It is not a requirement, but it is good practice to report:*

- ✓ *a review of the significant activities undertaken by the charity during the financial year to further its charitable purposes for the public benefit or to generate resources to be used to further its purposes.*
- ✓ *on the charity's grant-making policy where the charity conducts a significant amount of its activities through grant-making;*
- ✓ *details of any significant contribution of volunteers to the charity's activities.*

## Achievements and Performance

Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to a brief summary of the achievements of the charity during the year.

*But it is good practice to include details of the achievements of the charity during the year, measured by reference to the aims and objectives which have been set.*

**Note:** The Charity Commission guidance and model templates have reporting on objectives & activities, and on achievements & performance, as two separate sections, each with a further “optional” sub-section for “additional details”.

**Small Charity Support believes this is NOT a good idea and its template does not include such sections.**

That’s because we believe that this causes unnecessary and inappropriate fragmentation of the Report. In particular, it can make it difficult to link the reports of the charity’s achievement & performance to the objectives & activities which created them.

Instead, we recommend that as the Report goes through each of the charity’s key objectives & activities for the year in turn, following them up immediately with what those activities achieved as demonstrated by the relevant KPIs (Key Performance Indicators).

## **A Financial Review**

Charities must report:

- ✓ policy on reserves stating the level of reserves held and why they are held; where material funds have been designated, the reserves policy statement should quantify and explain the purposes of these designations, and where set aside for future expenditure, the likely timing of the expenditure’.
- Where no reserves policy is in place, a statement should be made to that effect;
- ✓ where any fund is materially in deficit, the circumstances giving rise to the deficit and details of the steps being taken to eliminate the deficit.

*It is not a requirement but it is good practice for the report to comment on:*

- ✓ *any significant events that have affected the financial performance and financial position of the charity during the reporting period;*
- ✓ *the major risks to which the charity is exposed, and the systems or procedures have been established to manage those risks.*

### **Funds Held as Custodian Trustee on Behalf of Others**

*It is assumed that the small charities for which this guidance leaflet is intended will not be acting as custodian trustees. Their report should therefore just contain a simple statement of “None”.*

*If that is not the case, guidance should be sought elsewhere.*

### **Public Benefit Statement**

- ✓ All reports must include a statement confirming whether the charity trustees have complied with their duty to have due regard to the guidance on public benefit published by the Charity Commission in exercising their powers or duties.

### **Plans for Future Periods**

- ✓ *It is not a requirement for small charities to report on their plans for future periods, but it is good practice to do so.*



### 3. Templates for the Trustees' Annual Report

There is no legally defined layout and format for the Trustees' Annual Report & Financial Statements. Most of the larger charities produce very extensive and sometimes ornate Trustees' Annual Reports & Accounts, often including photographs, diagrams and charts to make it more attractive and readable.

Trustees have flexibility in how they choose to prepare and present their Report, provided that they cover all the required items as listed above in the previous section, 2.

To make it easier for the Trustees of small charities to produce their Annual Report & Accounts with an appropriate layout and content, there are at least two templates available – one produced by the Charity Commission, another by Small Charity Support. There may be others found on the internet.

#### Charity Commission's Template

The Charity Commission template is available in two formats, both of which can be downloaded from its website<sup>7</sup>:

- (1) a PDF version which can be printed off and filled in by hand;
- (2) a MS-Word® document which can be completed on a computer and then printed off.

The site also has downloadable guidance notes on completing the templates.

The Charity Commission's MS-Word® version of its template makes extensive use of tables for formatting the layout of the report. Some will find that helpful – others may find it rather difficult to manage (particularly where extra table rows are required, or there are many blank rows, or the column with explanatory notes is not required).

The Charity Commission's template adopts the approach of reporting objects & activities and achievements & performance as separate sections. It also places great emphasis on "brief summaries" rather than clear descriptions of both the charity's Outputs and Outcomes<sup>8</sup>.

Consequently, the resultant report can easily become disjointed and inconsistent, making it difficult for readers who are not already well familiar with the charity to get a proper understanding of its objects, activities and achievements (and, therefore, the public benefit actually delivered by the charity).

This problem is exemplified by the Commission's so-called "model" Report for the WestbeadhYC<sup>Error!</sup>  
Bookmark not defined.

#### Small Charity Support's Template

The Small Charity Support also provides an MS-Word® version of a template for the Trustees' Report of small charities. A blank version of the template is downloadable from the Small Charity Support website. A replica of the template containing extensive embedded notes on how to complete it is included at the end of this leaflet.

The template complies with all the Charity Commission's guidance on what a Trustees Annual Report must contain but differs from the Commission's own template in two key ways:

- (1) rather than using tables for structuring the Report and contents the Small Charity Support template mostly uses just simple paragraph formatting, which some people may find easier.
- (2) instead of focusing on "brief summaries" with a bit of space provided for some "optional additional detail" it adopts a more conventional management report structure.

So there is a "Main Body" section where Trustees can put enough operation detail and data to: *".....bring the charity to life and ... provide donors with the opportunity to understand how their money was spent and the difference it has made."*

And the "Main Body" section is preceded by an "Executive Summary" section outlining the main issues covered by the Report so that a first-time reviewer can get just a very rough idea of the charity's area of activity and identify any particular areas that they might want to review in greater detail.

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<sup>7</sup> Trustees' annual report template (SORP 2005) published 2013  
<https://www.gov.uk/government/publications/trustees-annual-report-template>

<sup>8</sup> See the Small Charity Support's "Starting a Small Charity", guidance leaflet "1 – Outputs & Outcomes"  
<http://www.smallcharitysupport.uk/index.php/what-s-available/12-about-small-charity-support/8-starting-a-small-charity>

## Template for Charitable Incorporated Organisations (CIOs)

The latest Charity Commission guidance on preparing the Trustees' Annual Report & Accounts<sup>1</sup> specifically says:"

*CIOs preparing their accounts on a receipts and payments basis should note that they are required to make 2 specific disclosures regarding guarantees and debt and should refer to the receipts and payments pack for more information.*

Unfortunately, neither of the Charity Commission's templates in its "Receipts & Payments Pack" (Annual Report, last updated in 2015; Accounts, last updated in 2017) contain any provisions to meet those specific additional requirements for CIOs (which is a pity because CIOs are becoming increasingly popular as an alternative to unincorporated associations).

The additional requirements for CIOs are that their Report/Accounts must include:

- *particulars of any guarantee given by the CIO, where potential liability under the guarantee is outstanding at the date of the statement (eg: any outstanding/ongoing contract or legal undertaking to buy or provide specific services);*
- *particulars of any debt outstanding at the date of the statement which is owed by the CIO and which is secured by an express charge on any assets of the CIO (eg: a mortgage on property owned by the charity);*

Again unfortunately, these two requirements contain the usual Charity Commission ambiguity. By only requiring the statutory statements to be included in the Report/Accounts when particular criteria are met, the wording of the requirement leaves open the opportunity for charities where the criteria are not met to omit such statements.



That then leaves open the well-known (but, apparently, not to the Charity Commission) problem of "information by default" – "confirming" that a particular situation does not exist by means of not reporting that it does exist.

*ie: Does the absence of a particular piece of information count as a definitive statement by the charity that it has not met the criteria for including the information? (rather than: the absence of the information is a "statement by default" that the charity has overlooked, or ignored, or misunderstood the fact that it DID meet the criteria for including it?)*



**So provisions for the two statutory statement for CIOs have been included in the Small Charity Support template.**

The template also includes more detailed comments on how to complete them and a recommendation that the problem of "information by default" is avoided by including specific statements that either or both criteria are not met where that is the case

## Which Template to Use?

It's just a case of "horses for courses" – use whichever version suits you best. (You may also find other templates available for download from the internet.)

Small Charity Support believes that its template meets all the Charity Commission requirements in a more robust and less ambiguous way than the Commission's template.

In addition, some charities may find the paragraph-based formatting of the Small Charity Support template easier to use and adapt to their own needs than the table-based formatting of the Charity Commission's template.

But even if you choose to use a template from somewhere else – or just "do your own thing" – it is hoped that you may still find useful the structure of the Small Charity Support template, and the notes that accompany it.

And at the end of the day, if a charity is only preparing its Trustees Annual Report & Accounts to get the required "done-it, tick in the box" it can hardly be criticised by the Charity Commission for producing a "brief summary" report in the style of the Commission's "model" WestbeachYC Report.

But charities which want to demonstrate properly their achievements for the public benefit and the value they have delivered from their donors' funds, a more substantial report is necessary – particularly if they wish to continue attracting significant grants and donations in the future.

## Notes on Using the Small Charity Support Template

Although the template has some formatting of the text (spacing between paragraphs, tabs within paragraphs, use of tables, etc) it has been kept as minimal and consistent as possible because MS-Word® (and, to a lesser extent, OpenOffice®) is notoriously capricious in the way that it manages formatting – a small change in one section can have unexpected (and usually rather large and difficult to correct) changes in other sections. So it is recommended that you keep any format changes to a minimum.

Large text items (*eg*: the descriptions of the charity's objects and activities) are typed into the blank paragraphs following the relevant section heading. Just click on the blank paragraph marker below the section heading and start typing.

**Note:** you might find it useful to have formatting marks displayed – click on the [¶] button in the "Paragraph" section of the menu on the {Home} menu-bar.

You can type as much as you like. Just press the Enter/Return key to create additional paragraphs within the section. The section headings are formatted as "Keep with Next" – so, as you get towards the bottom of a page, even if there is still enough room for the heading it will move onto the next page if the first paragraph of that section is on a new page.

Where an entire section is not required, just highlight the section heading and the paragraph marker(s) which follow it and use "Delete".

Some small items of information (*eg*: names, registration numbers, addresses) are managed within tables to keep the spacing/layout tidy.

The tables are formatted without printing borders to the cells. You will be able to see the faint outline of the individual cells on the screen but they will not appear in the printed version. You just type the information into the relevant cell.

If you need extra rows in the table, just go to the last (*ie*: bottom right) cell in the table and press the "Tab" key.

If a table is not needed it cannot be deleted by just highlighting the cells and pressing delete – that only deletes the table contents. To delete an entire table, you have to highlight both the entire table AND its title and then press delete.

## 4. Typical Layout & Content of a Trustees' Annual Report

### *(With Notes on Completing the Small Charity Support Template)*

The structure of the section-headings in the following guidance replicate those in the Small Charity Support's blank template, which is downloadable from the Small Charity Support website <http://www.smallcharitysupport.uk/index.php/what-s-available/12-about-small-charity-support/6-simple-is-beautiful>.

The section headings in the Small Charity Support's template are indicated in **GREEN** in the notes below.

### Cover Page

The Charity Commission's guidance and template don't make any provision for a cover page to the Trustees' Annual Report & Accounts.

But many charities like to have a cover page to give their Report a more "individual" appearance. There is nothing which says that your Report must, or can't, have a front cover if you wish or, if you choose to have one, what it must, or can't contain.

So if you want to include a logo and/or a picture characterising your charity's activities you can do so. The following is Small Charity Support's suggestion for a simple Cover Page. But you can alter – or delete – it as best suits your charity.

**If you don't want to have a separate cover page the first page of your Trustees' Report will still need a title and details the Financial Period covered by the report. But the Charity Commission guidelines have no requirement for the Date of the Report to be mentioned anywhere other than where it is signed by the Trustees.**

**Your charity's logo:** Insert one if you wish

**Charity name & number:** Insert appropriately

### The Period Covered by the Report

**There is often considerable misunderstanding here !**

The Charity Commission's template (referred to earlier) starts off by asking for the "Period Start Date" and the "Period End Date" as if the entire report refers to just one "period".

**This, however, is misleading.** In practice the report has to cover TWO periods:

- (1) the period covered by the charity's Accounts;
- (2) the period covered by the Trustees' Report.



#### **(1) The Accounting Period – also referred to as the "Financial Period".**

The "period" being referred to at the start of the Charity Commission's template is the charity's financial reporting period, the end-date of which should be that registered with the Charity Commission along with the charity's other administrative details.

An accounting period is usually 12-months – eg: 1 January 2018 to 31 December 2018.

In which case it is often alternatively written as "The Financial Year Ended 31 December 2018".

#### **Changing the Financial Period.**

A charity's accounting period doesn't have to be 12 months.

For new charities this often happens when the charity was officially registered with the Charity Commission on, eg., 23-Nov-17 or 5-Feb-18, but still wants its financial year to end on 31-Dec-18 (rather than the following 22-Nov-18 or 4-Feb-19). Or when a charity wants to change its financial year from the calendar year from 1-Jan – 31 Dec to coincide with, *for example*, the tax year (6-Apr to 5-Apr) or the academic year (1 Sept to 31 Aug).

The Charity Commission has recently (10-Dec-18) issued guidance on changing the financial period:

<https://www.gov.uk/guidance/change-yourcharitys-financial-year>

#### **Rules for charities that are not companies**

*If your charity is a charitable incorporated organisation (CIO) or unincorporated association (not a company) you can change the financial period to run for more or less than 12 months.*

*It needs to be a minimum of 6 months, and no longer than 18 months.*

You can only:

- Change the dates for your current financial year
- Make a change every 3 years

Changing your financial year or period will also change your deadline for filing the annual return and accounts.

**Rules for charities that are companies:** See the Charity Commission guidance.

**Rules for newly registered charities.**

If your charity is newly registered and you have not submitted your annual return you will need to request permission to change your financial year. Use the Charity Commission's enquiry form to request permission. <https://forms.charitycommission.gov.uk/enquiry-form/>

Crown copyright acknowledged.

The Charity Commission guidance doesn't point it out explicitly. So we are left to assume that, if you change your charity's financial period – whether to end earlier or later than originally, the subsequent financial period(s) will run for 12 months from the end of the changed financial period.



Even less explicit is the guidance “can only make a change every 3 years”. One can but assume that this means “changes cannot be made within 3 years of the last change” rather than “changes can only be made at 3-year intervals – ie: in years 3, 6, 9, 12, etc.”.



## (2) The Period Covered by the Trustees' Report.

**The period which has to be covered by the Trustees' Report itself is NOT confined to the financial accounting period, as described above.**

Instead, the Trustees' written Annual Report has to include any matters of material significance, both activities/achievements and financial, from the beginning of the financial periods up to the date on which the Report was formally approved and signed by the Trustees which is “**The Date of the Report**”.

**In other words, the period covered by the Trustees' Annual Report can be considerably longer than the “Financial Period”.**

**For example:** If after the end of the Financial Year being reported the charity secured a new major grant, or a previous significant donor decided not to continue donating, the Trustees' Annual Report would need to make reference to that even though the financial implications of such changes would not appear in the charity's Accounts (ie: Financial Statements).

And the Annual Report **MUST** also include any changes (additions to, or retirements from) the Board of Trustees between the end of the financial period and the date of the report.

So, Trustees who delay their annual report until the last date for submission to the Charity Commission (10 months after the end of the financial period) have to report on nearly 2 years of activity in their charity, And all the activity in the overlap period (between the end of the financial period and the date of the Trustees' report) will need to be repeated in the next annual report.

That is one more reason why it is desirable for the Trustees' Annual Report to be completed as soon as possible after the end of the financial period to which it refers. Another reason is that the greater the delay between the financial period and the Trustees' Report the more out-of-date the Financial Statements are.

### Which Period ?

To try to minimise confusion, throughout this leaflet we'll use:

“**Accounting Period**” to refer to the period covered by the charity's accounts – ie: from the financial period start date (usually the day after the end-date of the previous financial period) up to the financial period end date as registered with the Charity Commission;

“**Report Period**” to refer to the Accounting Period (as above) **PLUS** the period up to the date on which the Trustees' Annual Report was approved and signed by the Trustees.

### The Date of the Report

If you put a date on the cover of the report it should be the end of the **Report Period**, ie: the date (perhaps just the month and year rather than the full date) on which it was formally approved and signed off by the Trustees.

It is important to note that the Date of the Report is usually not – indeed, in most cases cannot be – the date it was presented to the charity’s AGM. The law requires that the Trustees’ Annual Report MUST be completed and signed off as approved by the Trustees BEFORE the independent examiner can finally approve and sign off the charity’s accounts. So, if the Trustees are intending to submit their annual report and accounts to the AGM for members’ approval the accompanying accounts CANNOT have been formally approved by the independent examiner.

This, again, reflects the importance of clearly recognising that the nature and contents of the Trustees’ Annual Report for the public record is quite different from the Chair’s report to the members at the AGM (as described earlier in “So What’s the Problem ?”). There is no requirement that any Chair’s report to the AGM has to be submitted to, and accepted by, the Independent Examiner prior to him/her signing off the accounts..

The issue of “the date of the report” not being the date on which it is submitted to and approved by the AGM highlights an issue which is generally poorly understood (so it is fortunate that it rarely comes up as an issue).

Although the Trustees’ Annual Report and Financial Statements is often put to the AGM for “approval”, in practice the AGM (*ie*: the general membership) has no power to revoke it.

The Trustees’ Annual Report is “*what it says on the tin*” – The **Trustees’s** Report.

The AGM can certainly disapprove of the Report & Accounts and decline to approve/adopt it.

But the AGM has no legal power to command/require the Trustees to change what is, legally, THEIR report.

Of course, if the disapproval of the AGM was substantial and justified (*ie*: more than just the correction of minor typing errors, spelling/grammatical errors, ambiguities, etc) it would be a foolish Board of Trustees which did not take notice of that and try to find a mutually acceptable way of rectifying the situation. But, in that situation, any material revisions to the Trustees’ Annual Report and Financial Statements would have to be referred back to the Independent Examiner for his/her acceptance of the changes.

### **Naming Trustees on the Cover of the Report**

Some charities like to do this.

There is nothing which says that you can’t. But if you do, you must still also list all the Trustees in the relevant section of the body of the report. (And, obviously, you need to ensure that the two lists coincide – easily overlooked when just updating from one year to the next!)

### **Delays in finalising the charity’s accounts?**

**As an aside:** *It is noted that a common “justification” for a long delay in producing the Trustees’ Annual Report after the end of the charity’s financial year is the “delay” in getting the accounts up-to-date and in a form suitable for approval by the Independent Examiner.*

*The Small Charity Support “Simple Accounts Spreadsheet”<sup>9</sup> effectively eliminates that excuse of a “justification”. As the example spreadsheet shows, it is possible to create a worksheet within the overall spreadsheet to produce the data for the annual Financial Statements in a form which can simply be cut-and-pasted directly into the Trustees’ Annual Report. This means that the data for the Financial Statements are calculated automatically by formulae directly from the transactions records “in real time” (*ie*: immediately they are entered).*

*So, provided that the transactions data are kept up-to-date, the data for the end-of-year Financial Statements are always instantly available. Consequently, provided that the Trustees’ Annual Report is prepared in good time, the overall Trustees’ Annual Report & Financial Statement can be ready for presentation to the Independent Examiner for approval within days (certainly within a week or two) from the end of the charity’s financial period.*

*And this is of wider benefit. Having the Annual Report & Accounts ready for presentation to an AGM which is held within a month or two of the end of the financial year means that the Trustees can report on the charity’s activities, achievements and finances while they are still fresh in the mind, rather than being up to a year out of date.*

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<sup>9</sup> Downloadable from the Small Charity Support website: “**Simple is Beautiful: Charity Accounts as if Trustees Mattered**”  
<http://www.smallcharitysupport.uk/index.php/what-s-available/12-about-small-charity-support/6-simple-is-beautiful>

## Reference & Administration Details

### Charity details:

**Names:** Enter name of the charity as formally registered with the Charity Commission, together with any other working names by which the charity is commonly known.

**Number:** Enter the registered charity number.

**Address:** Enter the “official” address, with postcode, *ie*: the address to which all formal communications with the charity should be sent. If the charity moved its address during the **Report Period**, the address given should be the address at the end of the **Report Period** – but it would be useful to mention the change of address in the Trustees Report.

### Names of the Charity Trustees who Manage the Charity

**Names:** Enter the names of each Trustees. The Charity Commission gives no specific guidance, but it is suggested that the Trustees’ names given in the Annual Report are the names registered with the Charity Commission as the names by which the Trustees are usually known.

**Office:** If the Trustee holds a particular office in the charity, that should be given.

But note that a lot of charities think that they are legally required to have at least a Chair, Treasurer and Secretary appointed as officers. That is **NOT** the case, unless they are specifically identified as being required in the charity’s governing document.

For further information on this, see the Small Charity Support guidance leaflets on charity officers on its “Starting a Small Charity” webpage<sup>10</sup>.

**Date Appointed/Retired:** Date of appointment and/or retirement must be given for any Trustees who were appointed or retired during the **Report Period**.

**Appointed Trustees:** Where a trustee is appointed by an external person or organisation (*eg*: a donor or the local Council) a note of that must be included in the list of Trustees.

### Names of Trustees for the Charity

#### Note the use of some obscure jargon here !

There is a subtle, but important, difference between the terms “Trustees *of* the charity” and “Trustees *for* the charity”.

Trustees *of* the charity are the Trustees who have the final responsibility for ensuring that the charity is properly run and managed in accordance with its governing document in order to deliver its charitable purposes.

Trustees *for* the charity are Trustees who perform a special function on behalf of the charity, one of the most common being the legal holders of capital assets (*eg*: land, property) on behalf of the charity



Trustees *for* the charity have no involvement in running and managing the charity. So if they attend the meetings of the Trustees *of* the charity it is only to advise on those matters (land, property, etc) for which they are responsible.

Most small charities will not have any Trustees *for* the charity in which case this section can be ignored or simply deleted. But where there are Trustees *for* the charity their names should be given and, if they were appointed or resigned during the **Report Period** (see above), the relevant dates should also be given.

### Names & Addresses of Advisors

This will normally be the name and address of the charity’s bank and Independent Examiner, plus any other external advisors (particularly if paid) that the charity might have on a long-term basis (*eg*: solicitor, fundraising advisor, financial advisor, management consultant).

You might also want to include here (with appropriate explanatory comment) any external advisor who was engaged by the charity for a significant period during the year – perhaps to contribute to the setting up of a significant new project by the charity.

<sup>10</sup>

<http://www.smallcharitysupport.uk/index.php/what-s-available/12-about-small-charity-support/8-starting-a-small-charity>

## Names of Senior Staff with Delegated Responsibilities

This will be anyone – whether paid or volunteers – who have been given delegated authority by the Trustees to run the charity, or specific aspects of the charity, on their behalf.

This will normally only include those who have been given authority to interpret the objectives and policies of the charity and to make “executive” decisions on day-to-day operational matters within the overall constraints of the charity’s objects, policies and procedures.

If there are none this section can be deleted.

**Note:** This section is not about expressing gratitude to those who make a valuable contribution to the work of the charity (the Chair’s internal report to members). It’s about the Trustees making clear to “external” readers (donors, regulatory bodies, the public at large) how responsibility for the day-to-day operations of the charity are managed and reported back to the Trustees.

## Structure, Governance & Management

### Description of the Charity's Trusts

The term “the charity’s trusts” is just a bit of legal jargon to call the formal descriptions of what the charity is set up to do and the specific rules & procedures that it must follow in order to remain within the law.

### Type of Governing Document:

*eg:* Constitution, Rules

### How the Charity is Constituted:

*eg:* Charitable Incorporated Organisation, Unincorporated Association, Charitable Trust

### Trustee Selection Methods:

Put here a note of how the charity finds and appoints new Trustees – *eg:* if your charity places public advertisements, or uses a trustee finding service. Also include a note here if you have any selection interview or assessment and whether it is informal (*ie:* an “introductory meeting” with some of the existing trustees) or a more formal interview.

For many small charities, appointing a new trustee is not about the luxury of a formal selection process from a panel of applicants. More often it is about being lucky enough to find someone whose reluctance to join as a trustee can be overcome. In which case, don’t be too reticent about reporting that – it might even encourage others to come forward.

However, regardless of how informal or formal the charity’s selection and appointment procedures are, although not yet mandatory, it is now regarded as “best practice” to include a note about how identifying gaps in the knowledge and expertise of existing Trustees is used to identify the preferred characteristics of new Trustees.

### How New Trustees are Inducted and Trained:

**Note:** Although not a requirement, it is now good practice to include a formal note in the Annual Report about how new Trustees are inducted given appropriate training.

**For charities which are a CIO:** note that the model Constitution for CIOs includes a clause requiring that all new Trustees be provided with a copy of the Governing Document (Constitution) and the most recent Trustees’ Annual Report & Financial Statements.

But even where a charity’s Governing Document does not include such a requirement it is now regarded as recommended “best practice” and, ideally, will be mentioned here. The charity might also want to provide new Trustees with copies of the Minutes of recent Trustees’ meeting so that they can see the earlier context of the discussions that they will in future be part of.

Some charities also send new Trustees on more formal training programmes (*eg:* those offered by umbrella organisations like the Small Charities Coalition, Foundation for Social Improvement) and, if so, that should be mentioned here, too.



## Additional Governance Issues

Include here any additional information about the way the charity is run and managed – particularly anything which, though familiar to “internal” readers, might not be apparent to “external” readers.

This might include things like: important sub-committees, eg:

- ✓ a finance committee;
- ✓ working parties responsible for specific projects which the charity is, or is planning to, undertake;
- ✓ groups undertaking major reviews of policies & procedures.

Hopefully it will never apply – but if your charity has experienced any “untoward incidents” – eg:


- ⊗ theft or misuse of money;
  - ⊗ abuse of volunteers, staff or beneficiaries;
  - ⊗ negligence or wilful failure to comply with the governing document or Charities Act;
- that should be summarised here, along with confirmation that it had been reported to the Charity Commission in accordance with its Serious Incident Reporting (SIR) procedures<sup>11</sup>.

It is also useful to note here if the incident has been resolved (and procedures put it place to prevent its recurrence) and to comment on any adverse impacts the incident had on the charity (not just financial, but also damage to its reputation or its ability to work with its intended beneficiaries).

## Objects

Many charities don’t, on a regular basis, undertake activities relevant to EVERY SINGLE ONE of the aspects of their formal charitable object(s) – sometimes called “charitable purposes”.

Which is perhaps why the Charity Commission template and guidance suggests that you put just a “Summary of the Objects of the Charity as set out in its Governing Document” here.

Unfortunately this is a good example of failing to appreciate the difference between a “Chair’s internal report” and a “Trustees’ external report”. A short summary of just those parts of the charity’s objects which relate to the activities undertaken during the year, is fine an *aide memoire* to members within a Chair’s report reminiscing about what the charity has done in the year. But as the Charity Commission’s own guidance points out – an informal Chair’s report to an AGM is NOT what is required for the Trustees formal Annual Report for the public record. 

So, unless your charity’s objects, as in its governing document, are very long and unwieldy, you should consider copying them in full from your governing document and pasting them here. That is more consistent with the role of the Trustees’ Annual Report as being a formal “for the record” statement, providing the “external” reader with a clear picture of what the charity has actually done in the context of what it was set up to do.

However, if your charity’s formal charitable objects are too long to be accommodated “comfortably” at this point in the report then by all means include just a precis here, perhaps with the full text in an Appendix.

### Statutory Declaration on Public Benefit

Although this declaration is a requirement in every Trustees’ Annual Report, the guidelines do not specify where the declaration should occur in the Report. Inasmuch as “having due regard” will . in practice (presumably), precede any decisions by the Trustees when planning what activities the charity will actually undertake and why, putting the statutory declaration ahead of the Executive Summary and Detail sections describing the charity’s activities and achievements seems as good a place as any.

The Small Charity Support template contains the text of a basis declaration which should be suitable for most small charities.

But if you wish to put something different, just delete the text in the template and replace it with your Trustees’ own words.

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<sup>11</sup> Guidance: How to report a serious incident in your charity  
<https://www.gov.uk/guidance/how-to-report-a-serious-incident-in-your-charity>

## Executive Summary

At this point the Small Charity Support template differs from the Charity Commission's template.

The next two sections of the Small Charity Support's template are in the more conventional structure of an "Executive Summary" followed by "Main Body of the Report" for management reports, rather than the "Summary of Objects & Activities" followed by a separate "Summary of Achievements & Performance" structure used in the Charity Commission's template.

This, it is believed, will not only make the overall Report more coherent and informative, it will also provide a more efficient structure for the report.

Readers of the Report who are just looking for a very quick over-view of the Report's content (*eg*: a potential funder wanting to see if the charity is likely to meet its funding criteria) will be able to get that information from a quick glance at just the Executive Summary.

Readers who are looking for more specific details about what the charity is doing and achieving will similarly be able to identify key areas of interest from the Executive Summary as a pointer to where to look in the Main Report for more detailed information.

### Writing the Executive Summary

The most important aspect of a good Executive Summary is that it is short, punchy and to-the-point. In terms of length (and particularly for small charities), aim for no more than 500-600 words – that's less than the text on just this one page of this guidance leaflet.

The Executive Summary will be just a substantially shortened version of the Main Report which follows it. It will consist of short paragraphs – typically 3-6 lines long – stating the key points of the various sections in the Main Report itself – but without any detailed descriptions, explanations or justifications of those key points.

In addition, the paragraphs in the Executive Summary should follow the same order & structure of the Main Report so that it effectively acts like an index or contents list to the Main Report.

Some people may find it easier to start with drafting the Executive Summary and then using that to guide the writing of the Main Report. Others may prefer to do it the other way round – first drafting the Main Report and then condensing it down to the Executive Summary.

**These guidance notes are written on the assumption that people will start by putting together the Main Report, and then summarise it later.**

But whichever way people prefer to do it, there will normally be considerable iteration between the Executive Summary and the Main Report as improvements to one provoke improvements to the other.

Using this common management report structure, the Commission's WestbeachYC the Executive Summary section would instead have contained something like:

***Promoting Life Skills:***

*25 members aged 11-18 participated in the Duke of Edinburgh Award activities.*

*10 were successful in achieving the Gold Award and a further 6 achieved the Silver Award.*

***Developing IT Skills:***

*30 members took advantage of the enhanced IT facilities and participated in classes to improve their IT skills. All gained their Certificate of Competence in Internet Security.*

***Etc:***

*.....etc*

The above is enough for "quick skim readers" to see immediately – within just 3 lines of text and around 30 words for each sub-heading – the key features of each of the major activities undertaken by the charity during the year:

- ✓ The charitable objective being fulfilled;
- ✓ The characteristics and number of the beneficiaries;
- ✓ The activities undertaken (the outputs);
- ✓ What was achieved (the outcomes).

Readers who want more detail on a particular area of activity can then use the Summary sub-headings to locate the appropriate section in the "Activities, Achievements & Performance" (*ie*: "Main Body") section of the Report.

## Activities, Achievements & Performance

This is the “Main Body” of the Report where the Trustees can go into greater detail about their charity’s activities – particularly on the outcomes/achievements and the public benefit delivered.

As with writing any report of this nature, the worst part is always sitting looking at a blank sheet of paper and wondering how to start. These guidance notes are NOT the only, or even the best, way to go about writing a report. The best way is the one which works well for you and you are comfortable with. But even if you choose to go about writing the report in a completely different way, it is hoped that these notes will provide some useful ideas and help you to avoid common difficulties.

A good place to start is none other than Rudyard Kipling and his well-known little poem from his “*Just So Stories – How the Elephant Got His Trunk*”<sup>12</sup>

*I keep six honest serving men  
(They taught me all I knew);  
Their names are What and Why and When  
And How and Where and Who.*

But note that, In searching for answers to Kipling’s “6 Questions”, you’ll find that there’s a lot of overlap in the answers and, in many case, the same answers can apply to different questions.

### What?

For the purpose of writing a Trustees’ Annual Reports, think of Kipling’s “What?” question as being focused on “**What were you trying to achieve?**” rather than “What did you do?”.

In other words, the “What?” question should lead to creating a clear understanding of the priorities set by the charity’s Trustees in deciding which of its charitable objects and intended outcomes it would focus on. The actual activities run by the charity to achieve those objectives will come up later in the answers to the “How?” question.

So the answers to “What were you trying to achieve?” for a charity working with, for example, people with dementia might simply be:

- ✓ Promoting a sense of well-being; overcoming the sense of isolation, loneliness and confusion that loss of memory brings; and, where possible, delaying the progress of loss of memory in people suffering from dementia;
- ✓ Providing help and support to the carers of people suffering from dementia.

The “What?” answers will therefore generally be a shorter, more currently relevant and more “readable”, version (ie: summary) of the charity’s formal (ie: registered) charitable objects

Most small charities will have just a short list of “What?” answers. Perhaps just 2 or 3, or even only 1.

### **That’s fine ! Small is Beautiful !**

If you find that your list of “What?” answers is getting rather long (eg: more than 6-8), first check to see if some of what has been listed are actually answers to the “How?” question – ie: are describing outputs rather than outcome.

*Note: If this is a problem you might want to refer to the Small Charity Support guidance leaflet on Outputs & Outcomes on its “Starting a Small Charity” webpage<sup>10</sup>.*

If that doesn’t solve the problem it might be that that you are describing your intended outcomes (objectives to be achieved) in too much detail. Ultimately it is up to the Trustees to decide how much detail is required in their Annual Report. But in the same way that a Chair’s informal report to an AGM is too superficial for the Trustees’ Annual Report, so too the sort of information which is appropriate for a Trustees’ strategy & planning meeting is too detailed for the Trustees’ Annual Report.

Provided that the Trustees’ Report shows a clear and unambiguous picture of what the charity has achieved, anyone with a particular justification for seeing the underlying information in greater detail (eg: a funder or donor which/who is considering giving a major grant/donation) can always request that the charity provide it on an *ad hoc* basis.

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<sup>12</sup> “How the Elephant Got His Trunk: The Just So Stories” by Rudyard Kipling  
[http://www.kiplingsociety.co.uk/poems\\_serving.htm](http://www.kiplingsociety.co.uk/poems_serving.htm)

## Why?

Next, for each objective make a note why your charity has chosen to provide activities to address those particular objectives. Is it because:

- ✓ The activity is much needed and no other organisation in the neighbourhood is providing it?
- ✓ There are other organisations providing the activity, but the demand is greater than the existing providers can support (or the other providers are inconveniently too far away)?
- ✓ The approach to achieving the intended outcome(s) being provided by your charity is more innovative or versatile (*ie*: provides for a wider range of beneficiary needs) than those of other providers?
- ✓ The activity being provided by your charity is more affordable than other providers, allowing beneficiaries from lower income groups to engage in the activity?
- ✓ Or other reason(s) which are related to your particular charity?

But the Trustees' Annual Report is not the place to be writing your charity's extension to the words of the well-known musical song *"Anything you can do, I can do better..."*<sup>13</sup>

The best answers to the "Why" question can be found by the Trustees asking themselves ***"Why – when the charity's activity is over and the participants have gone back home – do we feel that was a really worthwhile thing for the charity to have done (again)?"***

## When?

The importance of the answers to the "When?" question will depend very much on the nature of the charity. For some it may be of little consequence. But for others it may be of huge significance and a great influence on when and how the charity operates. *eg*: a charity providing a helpline for people who are being subjected to abuse, or a refuge from domestic violence, or are suffering from depression or a serious illness, or are burdened with having to care for someone else – the "when" of an easily accessible and 24/7 services, in a context which is safe and confidential is of crucial importance. Of course, in such circumstances, some of the "When" (and subsequent "Where") details may not be appropriate for inclusion in the Trustees' Annual Report for reasons of security & confidentiality.

## How?

The answers to the "How?" question are the opportunity for the charity to explain in appropriate detail the activities it has provided or undertaken to achieve its intended outcomes. As with the "When?" answers, the importance of the "How?" answers will very much depend on the nature of the charity. If the charity is undertaking activities which are very comparable with those of other charities working in the same field, very little detail may be needed.

But if the charity's objectives are novel, or the charity is adopting a somewhat radical and/or innovative approach to the way it achieves objectives which otherwise have much in common with those of other charities, then much more extensive answers will be appropriate. And that is particularly so if the charity's approach has significant impacts on the benefits to either, or both, the individual beneficiaries and the public.

## Where?

Like the answers to the "When?" question (above) the importance of the answers to the "Where?" question will be dependent on the nature of the charity. For charities where, in order to deliver their activities and achieve their intended outcomes, some direct face-to-face contact with the beneficiaries is necessary, the answers to "Where?" will have a direct impact on which potential beneficiaries can, or cannot, take advantage of the charity's activities. But for charities (like Small Charity Support) which provide their services more "remotely" (*eg*: by e-mail, on-line materials, Skype), or can travel when it is better to meet beneficiaries face-to-face, the "Where?" question will be less important.

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<sup>13</sup> From the musical "Annie Get Your Gun"  
<https://www.youtube.com/watch?v=UB1YAsPD6U>


## Who?

The answers to the “Who?” question will be amongst the most important for writing the Trustees’ Annual Report. And those answers will, typically, fall into to distinct categories:

“Who?” – are the beneficiaries of the charity’s activities?;

“Who?” – are the providers of the charity’s activities (particularly when volunteers play a large role in the activities of the charity)

Identifying the charity’s beneficiaries (not as individuals, of course, but by their characteristics as a group or groups) is an important element of being able to demonstrate how the charity has met its obligation to deliver its charitable objects for the public benefit. The number of beneficiaries is also important, where identifiable, in order to be able to demonstrate the scale of the charity’s activities – including any significant increases or declines in the numbers together with commentary on the reasons for the changes. The numbers of beneficiaries – broken down by activities and/or beneficiary groups where relevant – may also be important, particularly for funders & donors (actual or potential), to demonstrate how the charity’s activities are delivering value-for-money from its funds.

Identifying the charity’s volunteers (again not usually as individuals) and the scale of their contribution to the running of the charity is a commonly overlooked feature of the Trustees’ Annual Report . That is despite the fact that in most small charities a large proportion (sometimes all) of the charity’s day-to-day operational activities are run by volunteers. So it is a bit “inconsistent” that Charity Commission guidance on reporting the contribution of volunteers ONLY applies to “charities which are subject to statutory audit” – ie: the 3% of charities with an annual income greater than £1M where the bulk of the charity’s operational activities are usually undertaken by paid staff and the main focus of volunteers is in fundraising. 

It can be very difficult to monitor with any degree of accuracy how much volunteers are actually contributing:

- ✂ The number of volunteers is the easiest thing to “measure” – but even that can be a bit “approximate” where volunteers turn up in an *ad hoc* manner.
- ✂ The number of hours spent by volunteers can be considerably more difficult to measure, unless the charity’s activities require volunteers to arrive and depart at specific times. And even then it is common for volunteers to contribute additional (*ie*: un-recorded) hours, both before & after their “timed” activity and at other times as well.
- ✂ The financial value of volunteers’ contributions (*ie*: what it would have cost the charity to employ paid staff to do the work instead) is by far the most difficult to monitor & measure. This is because deciding what pay-scale to attribute to the time contributed to volunteers can be very contentious, even when the number of hours they have worked is agreed. Clearly, when attributing a cost to the time contributed by volunteers an hourly rate less than the national living wage (currently £7.83/hr) should not be used. But, on the assumption that many volunteers contribute a higher level of skill than the basic minimum, a higher figure than that should be used – an office admin person might get £10-£12/hr; someone with the experience of a school teacher might get £12-£15hr.

But notwithstanding the difficulties, and the fact that the Charity Commission seems uninterested in such information being reported by small charities (despite the fact that the notional cash “value” of volunteer contributions of time can significantly exceed the charity’s voluntary donation income) it is recommended that even small charities should attempt to get at least a “broad brush” estimate of the time, skill and financial value of their volunteers’ contributions.

That is useful information to include in the Trustees’ Annual Report for several reasons:

- ☺ It provides the opportunity for the charity publicly to acknowledge, and express appreciation for, the contribution of its volunteers – the true scale of which often goes unrecognised, or underestimated;
- ☺ It provides a basis for demonstrating the “multiplier factor” of its volunteer contributions – ie: the extent to which the volunteers, through their donations of time and expertise, are multiplying the charity’s financial income from grants and donations. That is because their donations of unpaid time are increasing the financial value of the charity’s outputs & outcomes by the amount that the charity would otherwise have had to pay employees to do the same work;

- ☺ Being able to demonstrate the “multiplier factor” can be important when applying for grants as it demonstrates to funders the extent to which the financial value their grant will be enhanced by the contributions of the charity’s volunteers;
- ☺ An understanding of the “multiplier factor” is particularly important when applying for funding in the form of contracts to provide services – eg: to local community services. Local councils are often keen to contract services out to local charities because, for the councils, the “multiplier factor” works in the opposite direction. Ie: the “multiplier factor” works to reduce costs of the charity providing the services because of the volunteers’ contributions of time and expertise at no cost. The problem for the charity is that, if the contributions of volunteers diminishes or disappears (eg: volunteers move out of the area, or are otherwise unable to continue volunteering for personal reasons) the charity is still left with a contractual obligation to continue providing the services to the local council. If that commitment can only be fulfilled by the charity employing someone to do the work, it is landed with costs that it has to meet from its own funds. So it is vital that, in taking on such commitments, the charity is able to evaluate the financial risk of losing volunteers and build that into either what it will charge the local council for providing the service or into its contingency/reserves policy. And that needs to be properly documented in the Trustees Annual Report.

### Putting the Main Body of the Report Together

Having consulted Kiplings “six honest serving men” you will have most, if not all, of the information that you need to create the Main Body of your Trustees’ Annual Report.

As indicated earlier, the answers from the “six men” will overlap to a significant degree but, together, they will have provided you with most of the information you to complete the Report in accordance with Charity Commission’s requirements, as described in section 2, Objectives and Activities

- ✓ The purposes/objectives of the charity; {What? Why?}
- ✓ the outputs – the main activities undertaken by the charity; {How?, When?, Where?}
- ✓ the outcomes – how the activities have delivered public benefit; {Who? Why?}
- ✓ the generation of resources (fundraising); {How?, When?, Where?}
- ✓ grant-making policy and grants awarded (where relevant); {Who?}
- ✓ the contributions of volunteers to the charity’s activities. {Who?}

### Sub-Headings

You will probably want to divide the Main Body of the report into sub-headings to make it easier to read and understand. And for longer reports, if the sub-headings used in the Main Body and the Executive Summary are the same (strongly recommended) that will also make it easier for readers to identify and find the sections of the Report which are of particular interest to them.

There is no prescribed way for organising how the Report is divided up into sub-headings. That will very much depend on the nature of the charity and its activities. What works well for one charity will not necessarily work well for another. The sorts of ways that the Report can be divided include:

- ✓ By activity
- ✓ By types of beneficiaries
- ✓ By the objectives / outcomes to be achieved.

At the beginning of this leaflet it was said:

*“Getting it Right is NOT Difficult ! Producing a Trustees’ Annual Report ..... is not as difficult as it might sound. You just need to be a bit methodical and persistent. And if you are enthusiastic and responsible about what your charity is doing for the benefit of others, that’s already 2/3<sup>ths</sup> of what is required.*

With the help of Kipling’s “six men”, and your own enthusiasm for what your charity is doing, you may well find that your biggest problem is how to stop the Report getting too long as you describe all that you have done and achieved.

As problems go, that’s quite a good problem to have.

Again, there is no single infallible solution to that problem.

But one way that often works quite well is to put down most (if not all) of what you initially think might be good to say and then go through and prune out the bits that aren't necessary (duplication is a common cause here) or inappropriate.

The Trustees' Annual Report is the responsibility of ALL the Trustees – and, as it's NOT just the Chair's Report, certainly not just the responsibility of the Chair. In fact, in a charity which has a number of different activities, each may lead one of the Trustees who will therefore take prime responsibility for writing the section of the Report which relates to that particular activity. Sharing responsibility for producing the Report in that way not only shares the burden of writing the Report but also promotes joint "ownership" of the Report by all the Trustees. It is therefore to be recommended.

### Story-telling

"Story-telling" – in which individual beneficiaries are identified along with their personal story of how they benefitted from the charity, is now widely used as a method of reporting on and promoting the way that beneficiaries, and the public, benefit from a charity's activities. The idea is that potential supporters and donors can identify much more easily with an individual beneficiary than with an anonymous group of beneficiaries and, therefore, are more likely to contribute to the charity.

### "One swallow doesn't make a summer"

But individual stories, however emotionally attractive, do not always describe the broader spectrum of work that a charity does. So using specific individual stories to encourage funders/donors to think that is how their grant/donation will be used – and then to use that specific donation for more general purposes – is, at best, misleading and at worst deceptively dishonest (and, potentially, a breach of the law on restricted donations).

Oxfam Unwrapped's iconic "buy a goat" appeal<sup>14</sup> is perhaps one of the earlier and, therefore, best known uses of individual story-telling & pictures to report and promote the charity's activities. (*But it is by no means the only one of its kind. Many other "household name" charities, eg: Christian Aid, have similar appeals*). The Oxfam Unwrapped website does, with apparent candour, explain that "This gift supports our Making a Living (ML) projects." So anyone could be forgiven thinking that was simply explaining that the goat being donated was just one of Oxfam's wider range of "Making a Living" gifts. But the wording is ambiguous. To discover that you actually have to navigation around the Oxfam website to get to a page which "explains"<sup>15</sup>:



*When you buy a gift, your donation will be allocated to one of four project categories. Read the product description on the product page of your chosen gift to find out what project category your gift will support.*

*Your gift helps people start **making a living** for themselves. From training farmers and distributing livestock, to teaching business skills, your gift funds our work in this area.*

And even that needs careful reading for the meaning to become clear – your £25 gift **DOESN'T** necessarily go to buying a goat at all. Instead of the nice attractive goat that you thought your £25 donation was buying (*ie*: like the heart-string-tugging one in the picture) it could equally well be spent on chickens, seeds, bees, pigs, or even poo (some of the other items in the "Making a Living" project group).

It seems strange that using specific story-telling in that way can be legal. If one ordered a goat on-line and the company instead delivered 2 bags of poo – on the grounds that it was one of the "advertised"

**SUPER GOAT**



**This Gift in Action**

Kobra lives in a village in Daykundi Province, Afghanistan – a country affected by decades of instability and conflict, leaving many people struggling with poverty. But today, Kobra is building a better life for her family, thanks to a very special goat provided by Oxfam.....etc.

*Taken from the Oxfam Unwrapped website*

<sup>14</sup> Oxfam Unwrapped – Super Goat Gift Donation  
<https://www.oxfam.org.uk/shop/oxfam-unwrapped/build-farms/super-goat-ou9010ml>

<sup>15</sup> Oxfam Unwrapped – "It's important to us that you know how we spend your money"  
<https://www.oxfam.org.uk/shop/oxfam-unwrapped/how-we-spend-your-money>

alternatives – one might “have something to say” to the Advertising Standards Authority or Trading Standards. Or if a pig was delivered instead of a goat, anyone who was Muslim or Jewish might find that seriously offensive. But the Fundraising Regulator apparently doesn’t see any problem with that. So while story-telling is undoubtedly a powerful way to report on the “Who?” of your charity’s activities and achievements, be careful how you use it. Highly individual and emotive stories which over-exaggerate the scale and value of your charity’s activities and achievement might be enthusiastically seen as “great” by the charity’s more gullible supporters. But more discerning supporters, volunteers, donors and funders will not be so easily taken in and such stories could be seriously detrimental to the credibility of (and, therefore, support for) your charity.

## Financial Review

Although there’s no formal requirement for it, the charity’s Financial Review will (for obvious reasons) normally be drafted by the Treasurer. However, like all other elements of the Trustees’ Annual Report, the ultimate responsibility for the Financial Review – as with the Financial Statements – lies collectively with ALL the Trustees, not exclusively with the Treasurer (or whoever wrote it).

### Statement of the Charity's Policy on Reserves

Every charity’s Trustees Annual Report must include a statement of the charity’s policy on Reserves or, if it doesn’t have one, a brief explanation of why.

Detailed guidance on creating a “*Policy on Reserves*”, and a “*Brief Statement on Reserves*” to include here, is contained in a separate leaflet entitled “*Reserves Policy*” on the “*Policies*” page of the Small Charity Support website<sup>16</sup>.

As is explained in detail in the Appendix, the “*Brief Statement on Reserves*” in the Charity Commission’s “model example” for the WestbeachYC” is far from credible (to the extent of being potentially dishonest) and it is recommended that other small charities **DO NOT** follow that example.

### Details of Any Funds Materially in Deficit

The Small Charity Support template contains a simple declaration that the charity has no funds which are materially in deficit.

Hopefully your charity will never need to say anything different.

Funds materially in deficit occur when the charity has more commitments than it has assets. In simple terms: it’s account is overdrawn – *eg*: when the charity has spent money that it doesn’t have (perhaps by borrowing money from a bank, or a “supporter”) in anticipation of receiving a grant or donation which has not yet actually been paid.

If your charity has funds which are materially in deficit you should seek some experienced guidance before completing this section. And in this case the statement should also include an explanation of how the charity’s overdraft is going to be repaid so that the charity is again solvent (*ie*: “in the black”).

### State of the Charity’s Finances

This is where the Trustees report on the financial standing of their charity.

It will include an over-view of the charity’s main sources of income, including any major changes that have occurred during the year, or are likely to occur in the coming year. And that will include the impact of such changes on the charity’s activities and achievements – *eg*: a new major grant involving a significant expansion of the charity’s activities.

And it will similarly include an over-view of the charity’s main areas of expenditure and, again, any major changes that have, or are likely to occur and their impacts.

Hopefully there will not have been any major unexpected changes which were detrimental to the charity – *eg*: the loss of a long-term donor, or the need to repair or replace a major capital asset. The Financial Review should cover how the charity’s resources (reserves) have been able to cope with the

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<sup>16</sup> <http://www.smallcharitysupport.uk/index.php/what-s-available/12-about-small-charity-support/9-example-policies-procedures>



financial impact of the problem and what the charity is planning to do to overcome those financial issues and to restore any depleted reserves.

Unexpected financial “windfalls” can also be surprisingly detrimental to a charity if not properly managed. It is all-too-easy to get carried away with the unexpected extra funds and take on new activities which turn out to be unsustainable once the windfall has been used up, leaving the charity with commitments that it can no longer afford. The “Policies” page on the Small Charity Support website<sup>16</sup> includes a suggested example policy to cope with unexpected “Large Legacies & Donations” which might otherwise distort the charity’s finances.

### Restricted Funds

The financial review should briefly describe each of the restricted funds (if any) that the charity had or has – particularly those which carry forward from one financial year to the next. The descriptions should include the purpose(s) for which the restricted funds were given; the amounts carrying forward from one year to the next; and the dates by which the restrict funds were, or it is anticipated/intended will have been, fully spent.

**Note:** Restricted funds are NOT part of the charity’s reserves (*ie:* will NOT be covered by the charity’s Reserves Policy). It is therefore important for readers of the Trustees’ Annual Report to be able to see easily and clearly how much of the charity’s money in the bank is not available for general use because it can only be used for the purposes for which it was given. This is why restricted funds MUST be identified separately in the charity’s accounts.

### Designated Funds

The general principle of charitable funds is that they should be spent on charitable activities as soon as is reasonably practical after they have been received by the charity. In other words, it is contrary to the principles of the Charities Act (and, therefore, “frowned upon” by the Charity Commission) for charities to be accumulating unspent money without good reason.

Unfortunately, “designated funds” is another area where Charity Commission guidance (CC19 “*Charity Reserves: Building Future Resilience*”<sup>17</sup>) is, at times, ambiguous or inconsistent to the point of self-contradictory. This is particularly the case in whether Designated funds should, or should not, be considered part of the charity’s Reserves Policy.

**Small Charity Support recommends that, for small charities, the funds they put to one side to allow them to meet future commitments SHOULD be included as part of their Reserves Policy – as explained in more detail in Small Charity Support’s guidance leaflet on creating a Reserves Policy<sup>16</sup>.**

### Statutory Notes to the Accounts (only for CIOs)

All CIOs are required by law to include the following two notes in their accounts.

Other charities are not legally required to do so (unless their governing documents says that they must). But that doesn’t prevent any charity from including such notes for clarity and openness, (particularly if it does have such outstanding guarantees or debts), and the avoidance of any doubt for those charities which do not.

Note that the Charity Commission guidance for the wording of the statements creates yet another ambiguity. It is clear that the statements have to be included if either of the two situations that they refer to actually apply. But what if, in either case, there are no “particulars” to state because the charity does not have those liabilities? Does the charity still meet its statutory requirement if it has omitted those statements because there is nothing to state? Or does that leave the charity at risk of being criticised for omitting the statements even though there is nothing to state?



There is a simple solution.

There is nothing “illegal” about making a definitive statement of “nothing to state”.

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<sup>17</sup> CC19: Charity Reserves: Building Future Resilience, section 3.1  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/589406/CC19.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/589406/CC19.pdf)

It is therefore recommended that charities always include such a “statement of no statement” in their report when they have no “particulars” to state. This actually serves two useful purposes:

- 1: it removes any concern by the reader (including the Charity Commission) that the statement might have been omitted by oversight, rather than because the charity has nothing to state;
- 2: it provides a positive reminder to Trustees to check that the “statement of no statement” really is true – particularly useful where a charity creates its current Report by updating last year’s one.

## **Particulars of Any Outstanding Guarantee Given by the Charity**

The note should describe any potential liability under a guarantee given by the Charity which is outstanding at the date of the statement of assets and liabilities;

*ie:* if the charity is committed/contracted to do something which will cost it money in the future (eg: it has received grant monies and the work for which the grant was given has not yet been completed).

If that is not the case it is recommended that the following simple statement is included, rather than just omitting this note.

*“The Trustees declare that the charity has given no guarantee where potential liability is outstanding at the date of the statement of assets & liabilities”.*

## **Particulars of Any Outstanding Debt**

This note should describe any money which is owed by the charity at the date of the statement of assets and liabilities and which is secured by an express charge on any of the assets of the CIO; (eg: it has taken out a bank loan which is secured by a mortgage on the charity’s property).

If that is not the case it is recommended that the following simple statement is included, rather than just omitting this note:

*“The Trustees declare that the charity has no outstanding debts which are secured by an express charge on any of the assets of the charity at the date of the statement of assets & liabilities.”*