

Case Study – inappropriate remuneration

Charity trustees made a severance package to a senior employee which represented half of the charity's assets.

What happened?

The charity was in the process of winding up and had been given our consent to do so some four weeks before its Board took the decision to award the payment. The severance package contained three elements, of which the charity was bound to honour two. The third element was a discretionary payment to increase the employee's pension which represented more than six years' worth of pension enhancement. This represented considerable private benefit to the individual concerned and was an inappropriate use of charity assets.

We further found that the Board did not seek external legal advice and had based its decision on a local authority redundancy scheme. The employee had already been rewarded through the charity's performance management scheme. We found that the actions of the trustees amounted to misconduct in the running of the charity.

Outcome

The governing document of a charity states that when it winds up, any remaining funds should be distributed to another charitable organisation. The money of the charity does not belong to trustees, employees or volunteers. While it is important that any legal obligation is fulfilled, any remaining amount is to remain in the charity sector for charitable use.

What can you do to protect your charity?

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

- You should at all times be able to show that you are acting in an open and transparent manner.
- You must act in the interests of your charity.
- You must seek, in good faith, to ensure that your charity operates in a manner that is consistent with its objects or purposes.
- You must aim to act with the care and diligence that is reasonable to expect of a person who is managing the affairs of another person.
- You must ensure that your charity complies with the 2005 Act and other relevant legislation (equality law, employment law, etc).

Guidance and support

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