

Choosing and using a bank for VCOs

A bank or building society account is essential for all voluntary and community organisations no matter how small the organisation or how little money they have. It allows an organisation to securely receive money from funders, donations and trading activities and pay for the goods and services used.

Your organisation's governing document should tell you how money is to be held, and how cheques and other transactions are to be authorised. For most organisations, the governing document will give the power to open one or more bank or building society accounts, which must be in the name of the organisation with at least two signatories to authorise transactions.

Your organisation should review its banking arrangements every three to five years. You should change your organisation's bank account if you are unhappy with your existing one.

Opening a bank account

The bank account must be in the name of your organisation and must match how it is written in your organisation's governing document. Registered charities must tell their banks about their charitable status because charities with an income of £10,000 or more must state on their cheques that they are a registered charity. Also registered

charities do not pay tax on interest earned on accounts.

The bank or building society will require the trustee board or management committee to pass and minute a standard resolution to appoint signatories. The wording of the resolution is usually set out in the bank mandate. The signatories to the account must be named on the mandate. The bank or building society will also ask for a copy of your organisation's governing document.

A bank or building society must verify the identity of all the signatories so they will need to provide some personal information and documents to prove their identity and address.

Signatories

Your organisation's governing document may specify who the signatories must be. If it does not, your organisation can choose who the signatories will be. The signatories are likely to be the trustees or management committee members but could also include a staff member if your organisation has paid staff. It is practical to have a pool of three or four signatories from which any two can authorise a transaction, provided this is acceptable to your bank. The signatories should be discussed, agreed and minuted at a trustee board or management committee meeting.

The trustees or committee members are legally responsible for the organisation, and proper financial controls that include a requirement for two signatories to authorise each transaction, play an important part. The signatories must never sign a blank cheque.

Non-cheque transactions

Your organisation must put in place procedures to make sure non-cheque transactions such as electronic or telephone instructions, standing orders and direct debits are properly authorised by two signatories. You must take particular care over passwords for telephone or internet banking. If you do not feel you can put in place proper financial controls for this, it may be better to avoid these options altogether.

Banking and your financial systems

Bank statements and other banking records are a vital element of your organisation's financial system. Bank statements should be regularly reconciled with the cash books, cheque book counterfoils, paying-in slips, and direct debit and standing order records. To stop bookkeeping work building up, to keep effective control of your organisation's finances and to detect fraud, we suggest carrying out a bank reconciliation every month. So ask for monthly bank statements from your bank. Your organisation's financial records, including statements and other banking records, must generally be kept for seven years.

Before choosing a bank

Most banks or building societies offer accounts suitable for voluntary and community organisations, but accounts will vary so it is worth shopping around. Decide what accounts you need – all organisations need a current account but you should think about an interest-paying deposit account too

to make the most of your money.

Before starting your research, try to estimate the approximate number of transactions that will pass through the accounts each month including paying in cash and cheques, withdrawing cash, cheque and BACS payments and direct debits and standing orders.

Questions to ask

1. **What will the bank charges, based on your organisation's estimated level of activity, be?** Bank charges vary so it is worth spending time to get the best deal. Always get written details of how charges are calculated. If you are offered free banking, are there any restrictions on the account? Does it meet your needs?
2. **Will the bank or building society send out monthly statements?** If so, are they free?
3. **Is there a minimum balance to open and maintain the account?**
4. **What interest is paid on current and deposit accounts and when?** Is the interest paid gross or net? Registered charities should automatically get gross interest and some banks may give this to unregistered charitable organisations. Some current accounts may not pay interest in return for no or low bank charges
5. **Is there a cheque book for the current account?** If not, how will your organisation make payments?
6. **Will the account allow you to set up direct debits or standing orders to pay regular bills?**
7. **Where is the account?** Do you need a bank or building society near you or could you use a postal or internet based

account? Many of the socially responsible banks do not have a branch network and use postal or internet based accounts so that they can pass savings onto you. You can usually nominate a local bank or building society to pay in and withdraw cash

8. Is there an ethical investment policy?

Does it cover the issues your organisation is concerned about? As a trustee or committee member, you should balance these concerns with your role to make proper use of your organisation's funds

9. Are the accounts only available to registered charities?

10. Is there a local representative in your area or someone that you can ask if you have any questions?

If you have a local representative they should be able to answer your questions, help you open an account and tailor an account to suit your needs

Tips for preventing cash flow problems

- Spread the cost of bills over 12 months, if you can
- Ask funders to pay grants and donations directly into your back account using the Bankers Automated Clearing System (BACS). A BACS payment is quicker to clear than a cheque so will give you quicker access to your money and you will start earning interest earlier
- Ask those making regular payments to you to use standing orders

Tips for making the most of your cash

- **Set up a deposit account** to hold money you don't need immediately, but check

the restrictions on withdrawals. A grant paid in advance could assist in building up reserves if paid into an account which offers interest. Some current accounts have a sweep facility, where any balance over a set amount is automatically transferred to an interest-bearing deposit account

- **Reduce the time spent on day to day money management** by paying wages and other regular bills by BACS, direct debit, standing order or internet banking. There may be a charge for BACS or internet banking but it can:
 - reduce the number of cheques you use and may incur a lower item charge
 - save on postage
 - save calling in your signatories
 - keep suppliers and employees happy because they receive their payments and salaries on a specified date directly into their bank accounts

Banks with charity accounts include

Triodos Bank
www.triodos.co.uk

Unity Trust Bank
www.unity.co.uk

Charity Bank
www.charitybank.org

Co-operative Bank
www.co-operativebank.co.uk

CAF Bank
www.cafonline.org

How Newcastle CVS can help you

Newcastle CVS' financial services (run by Ellison Services, a trading arm of Newcastle CVS) provides free advice and support on

financial matters, and a range of other services that are charged for including holding and administering funds for voluntary and community organisations. Any organisation using this service can arrange for all their financial administration to be done at a reasonable cost. To find out more phone Jim Dodds on **0191 232 7445** or email **jim.dodds@cvsnewcastle.org.uk**.

Other useful information

- Charity Commission publication CC8 - *Internal financial controls for charities, CC12 Managing a charity's finances: planning, managing difficulties and insolvency* download from:
www.gov.uk/government/organisations/charity-commission

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