

ROYAL BRITISH LEGION CHARITY COMMISSION INQUIRY¹

The report of a formal inquiry ordered by the Charity Commission into the circumstances surrounding loans made by the Royal British Legion to its non-charitable associate, the Legion Leasehold Housing Association, was published in June 1992. The inquiry was instigated by the Charity Commissioners in April 1990, under s.6 of the Charities Act 1960. Prior to publication, the Commissioners had considered and accepted the inquiry report and its recommendations.

Background

The Royal British Legion is a charitable members' organisation governed by Royal Charter. It is a substantial organisation with an annual budget of £15 million and assets of about £28 million. The affairs of the Royal British Legion were managed by the National Executive Council (N.E.C) which has power to form committees and which are accountable to it by report. The members of the N.E.C. and the committees are in day to day control of the administration of the charity and therefore its trustees.

Legion Leasehold Housing Association was a non-charitable housing association set up by the Royal British Legion, which had power to appoint its committee. Its objects were to provide housing for ex-service personnel who were in need, *and* for the community at large. As a non-charitable housing association (its objects were not exclusively charitable) it was building houses for sale, in a competitive market, and it was using funding at commercial rates.

The scale of operations, coupled with limited powers to co-opt, resulted in shortage of people to fill posts and a consequent overlapping of personnel between the N.E.C., its Finance Committee and some other associated organisations including the Legion Leasehold Housing Association. This had a potential for conflict of interest.

¹ Copies of the Report may be obtained by post free of charge from: Press and Information Office, Charity Commission, St Alban's House, 57/60 Haymarket, London SW1Y 4QX..

Throughout the life of Legion Leasehold Housing Association decisions were being made by the Finance Committee involving the increase and repayment of loans when a substantial number (sometimes the majority) of the members were in a position of serious conflict of interest.

Committee members were chosen on the basis of their long service to the Royal British Legion, not because of their commercial expertise. Clearly the charity was out of its depth.

The N.E.C. took legal advice before making any advances to Legion Leasehold Housing Association. The advice given was that since the objects of the Association were so close to those of the Legion, it was appropriate for the Legion to make grants or invest in the Association. The inquirer concluded that this advice was wrong, and was perhaps given under the mistaken assumption that the Association was a charity. It clearly was not, as about 26% of the houses were sold to non-necessitous people.

The original loan of £1.5 million was later increased and the repayment terms extended, and in total over £2 million pounds was lent to Legion Leasehold Housing Association, with the authority of the N.E.C. and the Finance Committee. This was by way of investment. Although legal advice was taken as to the power to make the original payment, no separate investment advice was sought as to whether the investment itself was advisable. This was an application of funds in breach of trust but made in good faith in the light of legal advice.

In April 1990 Legion Leasehold Housing Association went into liquidation. The consequent loss to the charity's funds was approximately £900,000.

Comment

The inquirer acknowledged in his report that no one had acted for personal gain, and even decisions which were wrong or misguided were taken in the bona fide belief that they were in the best interests of the Royal British Legion.

However, it cannot be over-emphasized that the duties and responsibilities of a charity trustee are onerous and are not limited to a duty of good faith.

The Report contains comments and points of guidance of a general nature which are useful to all charity trustees. The lessons to be learnt can be summarised as follows:

Trustees must take proper professional advice before investing in the property market or any other potentially speculative venture;

A charity's investment policy should at all times be prudent, cautious and in the long term interests of the beneficiaries. There is no such thing as "venture capital" where charities are concerned.

It is fundamental that in all charities, as in all organisations, there are clear job specifications for all executives and a clear reporting procedure, together with authorisation levels, so that everybody is aware of where the responsibility lies;

Delegation is not abdication of responsibility. Trustees must ensure that their interests are properly represented at all times;

Proper records of meetings and decisions must be kept;

It is important for charities to install formal systems of financial control and to heed the professional advice of their auditors. Adequate accounting systems should be in place before starting up any activity. Trustees must ensure that accounts accurately reflect their financial position.

It is worth noting that the effect of the loss in practical terms on the work of the Legion has proved to be negligible. However, the importance of the loss lies in the fact that the money was contributed by the public for charitable purposes. Such losses can affect public confidence in the individual charity and charities generally.

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