ACF Association of Charitable Foundations

Spending out – making it happen

"Spending out well is a team approach, with the right people in the right places doing the right jobs, all pulling in the same direction."

An ACF Guide for members

1 Who is this for?

Independent trusts and foundations have been supporting work of public benefit in the UK for centuries – and some of the earliest foundations are still making grants today. While most remain committed to a long-term or permanent future, increasing numbers are interested in exploring spending all or part of their capital in pursuit of their mission. And many new donors are attracted to a 'giving while living' approach, allowing them to put their personal energies behind the funds they have donated.

In 2010 the Association of Charitable Foundations produced '*Spending out: learning the lessons from time limited grant-making*'. The spend-out foundations who contributed to the publication were keen to share their experience, believing that the questions of purpose and focus raised by spending out offer an interesting contribution to the debate about what it means to be an effective foundation. Designed for a broad audience, that booklet looked at the arguments for spending out and the strategic issues it raises. It explored who is spending out and the reasons behind their decisions, before moving on to detailed discussion of questions about mission and impact of relevance to all foundations concerned about making the most effective use of their resources to meet their aims.

While it may be of interest to a wider audience, this companion guide is focused on the practicalities of spending out and targeted at those foundations that have decided this is the path for them. By sharing the practical experience of those who are well into the process or have already completed it, we hope to make it easier for others wishing to follow in their footsteps.

Terminology

We are using the term 'spending out' to refer to the process of spending both endowment income and capital, with a view to using up all the assets of a trust over a defined period. There are variations in how this is done but we use spending out to refer to them all. In the US and elsewhere the process is often known as spending down.

Spending out is technically possible for any trust with an expendable endowment. Only those foundations required to maintain their endowment in perpetuity are unable to consider this option.

Structure and contents

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There are a lot of common questions that spend-out foundations need to ask themselves, and much common ground in some of the options they might want to consider. However, the right answers will be different for almost everyone, depending on their legal status, size, approach to grant-making, number of staff, source of income, attitude to legacy and so on.

In the early part of this booklet, our focus is on the broader questions about what might be achieved by spending out and the overall impact it will have on how the trust does its business. This section highlights the questions that others have asked themselves and gives some examples of the choices they have made, under the following headings:

- **Why are we spending out and what do we want to achieve?**
- **What are the implications for our grant-making?**
  - – Our grant-making approach
  - – Filling the gaps
  - – Monitoring progress and measuring achievements
  - – Communicating the new approach
- **How can we make sure things go smoothly?**
  - – Governance arrangements
  - – Planning

We then move on to more detailed discussion of the practicalities of the spending-out process, focusing on the lessons that others have learned in dealing with these practicalities and their recommendations and advice for others, under the following headings:

- **Getting to grips with the nuts and bolts**
  - – Legal arrangements
  - – Investment and finance
  - – Staff and HR
  - – Operations
- **Records and archives**
  - – Legal requirements
  - – Communicating the legacy
- **Saying goodbye**

This booklet can only be a starting point – an annotated map to the terrain between here and the point of closure. Professional advice on legal, contractual and financial issues will be needed at various points along the way. In addition, the chance to talk in more detail with those who are further down the path can be of huge value. As part of its own spending-out plan, the Tubney Charitable Trust convened a spending-out group, which is now supported by the Association of Charitable Foundations. This guide has drawn extensively upon the experience of that group, and everyone who has contributed to it stresses the value of this group – as a source of advice, support, new ideas and a safe place to explore the best solution for each trust's individual circumstances. The opportunity to work confidentially, in a group of funders committed to spending out, has created a forum where people feel free to speak frankly about their experiences – both good and bad. Although everyone's circumstances are different, this creates genuine opportunities for people to learn from others and apply this in their own planning and delivery.

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Why are we spending out and what do we want to achieve?

Trusts and foundations decide to spend out for a number of reasons. Some are simply fulfilling their founders' wishes. Some feel external circumstances have overtaken them and their work is reaching a natural conclusion. Others have come to the view that spending out is a more effective way of working – or a better way to make an impact. Whatever their motivation, all would stress how critical it is to develop a clear – and shared – strategy to guide the spending-out process. The kinds of questions they have asked themselves are:

- What will be our legacy – what will spending out enable us to achieve?
- Why is this important? What difference will it make?
- Do we know enough to make these decisions? How can we get the right help?
- What timescale do we need to achieve our aims?
- What will we have to give up/stop doing?
- What other resources can we bring to bear? Can we offer our expertise, contacts or reputation, as well as our money?
- How will we judge our progress and achievements?
- What are the risks and how can we mitigate them?

Achieving strategic clarity from the start provides an essential framework for all the operational decisions to come.

The critical moment for many is the point at which they move from talking about spending out at some point to agreeing just when they will close. This usually starts as a window – perhaps during a defined calendar year – before it becomes a firm target date. But the end is now in sight. Until this point, there is still scope to experiment and change direction. Making the decision to spend out by a particular date forces a new kind of focus. There is little room for the give and take between, for example, the different interests of individual trustees that is possible when there will always be another round of grant-making. Spend-out foundations emphasise how difficult it can be for both trustees and staff to take a hard look at the issues they care about and make firm decisions about where they can have the most impact. Doing it well takes time and serious engagement.

Spend-out foundations have taken very different views on their legacy. Some have set themselves the challenge of changing public policy or delivering significant change on a pressing social issue. Some commit themselves to increasing the fighting power of a sector at the heart of their mission, equipping key organisations to be significant players for the long term. Others go for one last big project. But all of them are convinced that achieving this strategic clarity from the start provides an essential framework for all the operational decisions to come.

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What are the implications for our grant-making?

Our grant-making approach

A firm decision to close a foundation inevitably focuses attention on its funding programmes and approach. 'Business as usual' is not an option. Spend-out foundations ask themselves a range of questions about the grant-making models they want to use, their relationships with grantees and the resources they need to work effectively – for example:

- What kind of grant-maker do we need to be to achieve our goals?
- How engaged do we want to be with individual grantees? Are we, for example, commissioning work to achieve defined outcomes, or getting behind key organisations and their mission, or supporting specific projects?
- Who will we fund? Are we open to new applicants or will we only support organisations we have funded in the past?
- Will we accept applications or adopt an 'invitation-to-bid' approach? How will we manage this well?

Many spend-out foundations take a staged approach – for example, testing the market and building their experience with a relatively broad programme before focusing on a small number of key areas in their final years. With differing degrees of comfort, many spend-out foundations have adopted an invitation-to-bid approach, at least in the immediate run-up to closure or for part of the funds they have to spend. Not all have limited this to past grantees. Some, for example, started with a review of the sector or issue they wanted to support and approached organisations they identified as having a distinctive contribution to make.

All have had to, in some way, renegotiate their relationship with grantees.

Beyond this, practice varies, depending on the kind of grant-maker the trust is – and wants to be during its spend-out phase. Some have become more ready to let go of the detail of project plans, focusing on getting to know an organisation as a whole and supporting its vision and values. Others have continued to fund specific projects, with well defined outcomes, or become genuine partners with service delivery charities in a push to make a big change in policy.

All have had to, in some way, renegotiate their relationship with grantees. At the minimum, this has meant making sure they are effectively communicating their intentions to close and the implications of their spend-out plans for their grant-making. For some the change in relationship has been dramatic. Some have moved from a relatively hard-nosed 'return on investment' approach to becoming a critical friend, offering free business consultancy to help organisations to shape the best possible proposals. Others have become both a funder and partner, with much greater levels of mutual accountability. Encouraging organisations to understand and accept such a significant shift – no matter how welcome – is not straightforward. It demands clarity and consistency in a foundation's thinking, as well as excellent communication and relationship-building skills.

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Easing the transition

Some spend-out foundations have been important players in neglected areas. They have offered long-established, core-funding relationships to organisations that may struggle to find funding from others. Both the narrowing of focus in preparation for spend-out and the closure itself raise important questions for these trusts. Foundations that have largely supported project-based work may have a more natural end point for their funding – but they too may have special relationships or concerns about a lack of alternative sources of funds for their key causes. The kinds of questions they have asked are:

- Do we have any responsibility to groups we have supported in the past that now fall outside our core areas of interest?
- Do we want to make special grants to key organisations shortly before we close?
- Is this the time to consider supporting some grantees to develop endowments or build their free reserves?
- If (as some spend-out foundations have) we set up organisations to help deliver our strategy, should we take responsibility for paying any redundancy costs they will incur – or all their closure costs, if they do not continue when our funding ceases?
- Should we be taking action to encourage other funders to get involved in this area of work?

Some have offered transition grants to long-term grantees, helping to build their fundraising capacity to secure funds from elsewhere. Some are making a number of legacy grants to key partners or others, which essentially come with no strings attached. Some are actively involved in promoting the needs and priorities in their areas of interest to others with the capacity to build on their investment.

Monitoring progress and measuring achievement

One of the challenges for spend-out foundations is that – unless they hold off closure until all their funded work is complete – they will not be around to manage grants to their conclusion and see what has been achieved. This raises a number of different kinds of question:

- What are we trying to learn from our spend-out strategy?
- Who will be interested in these lessons and what will they find useful? How will we communicate with them?
- How will we measure progress towards our goals in the run-up to closure?
- What are our options if we are not seeing good results? How much flexibility do we have?
- What kind of routine reporting do we want from grantees – if any? And when should this stop?
- Do we want to change our approach to due diligence at the assessment stage?
- Shall we put in post-closure arrangements to monitor and evaluate our live grants? If we do this, what would be the sanction for poor performance (either by the grantee or by our agent)?

Communication with different audiences needs careful planning – and a good sense of timing.

In general, spend-out trusts want the point of closure to be a proper end to their activities as grant-makers. There has been little enthusiasm so far for appointing a post-closure evaluator or negotiating with another funder to take on their grant management responsibilities. Some have approached this by identifying clear social benefit targets for their spend-out strategy, to be achieved within their life time. Most of their learning will be drawn out before they close. Any grants they give at the end will essentially be gifts to key partners or organisations seen as having a distinctive contribution to make. Others have put even stronger emphasis on their initial due diligence, basing their confidence in the good use of their funds on the quality and track record of their grantees so far. Some have funded one or more big initiatives with their own built-in evaluations – they will not be around to manage them but are confident that grantees will develop and share valuable learning. Others are looking more at the process of spend-out, learning how to do it well and identifying lessons for trusts and foundations more generally.

Communicating the new approach

Setting a closure date also brings home to applicants and grantees, as well as to colleagues in other foundations, the reality of spending out. Foundations that have always planned a limited lifespan are scrupulous in making their intentions clear to applicants, usually through their websites. But, until a date is set – and it is within the kind of timescale that coincides with most applicants' planning horizons – it may be ignored. A spending-out decision by a 'permanent' funder can be very destabilising – particularly for organisations with a long history of support or that are working in a neglected area.

Depending on their relationships, some spend-out funders have put considerable effort into 'behind the scenes' discussions with grantees and absorbing some of their inevitable frustrations and concerns. Others have relied more on written statements of their strategy and the reasons behind it. But all would argue that communication with different audiences needs careful planning – and a good sense of timing. Those foundations with a wider public audience have had to give this particularly careful attention.

The general advice is to keep reinforcing the positive messages about spend-out. The foundation will not be making grants in the future – but this means there is a lot more money available now to do important work. It is also worth being aware that, despite the amount of information available online, many grant-seeking organisations still rely on out-of-date information to identify potential funders – using old copies of directories of funders in the local library, for example. Getting the message out is rarely just a matter of updating the foundation's website. Some would recommend bringing in people with professional skills to help with communications work, particularly if the trust has little previous experience or existing in-house expertise.

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How can we make sure things go smoothly?

Spending out well is a team approach, with the right people in the right places doing the right jobs, all pulling in the same direction. The challenge is to make sure that all the details are properly looked after, without losing sight of the big picture. Setting up the right governance arrangements, developing clear and comprehensive plans and allowing plenty of time, have been identified by everyone as critical to success.

Governance arrangements

One of the first questions spend-out foundations ask themselves is whether they need to change their governance arrangements to manage the spend-out well – and if so how?

- Who will oversee the practical details of spend-out on behalf of the trustees? Do we need a spend-out sub-committee and who should sit on it?
- Do we need special oversight of our grant-making during spend-out? Or of our other legacy and learning activity?
- How will we make sure all this is pulled together so that trustees are assured that we are making good progress in all areas?
- Do the trustees need to meet more often? For longer? In a different forum (for example, by conference call)?
- How will we make decisions quickly, when we need to?
- Do we need to review the levels of delegated authority to senior staff?
- Do our risk register and terms of reference properly reflect the demands of spending out?
- How important is it that all trustees are able to see the process through to the end? Do we need to suspend normal resignation and reappointment processes to make this possible?
- Do we need new expertise on the Board to help us through this process?
- Are we satisfied that the staff we have in post and our professional advisers have the skills and experience we need?

Planning

Once the big strategic decisions have been made and their implications worked through, the essential tools of spending out are well-communicated plans, timetables and checklists, designed to ensure that the foundation achieves its aims and fulfils its obligations in order to close successfully on the agreed date. A number of recommendations have emerged from the experience of spend-out foundations so far.

Start planning early

The main recommendation from everyone involved in managing the practicalities of closure is to start detailed planning at least two years out. This makes certain that any long-term contractual agreements are picked up and allows time for complex negotiations (for example, over premises).

Do everything possible to make closure plans accurate and comprehensive – so many things have to happen and there are so many interdependencies that it is essential to get contributions and ideas from everyone. Some foundations recommend carrying out a formal internal due diligence process to make sure all the loose ends will be picked up.

Expect the unexpected

No matter how good plans are, something will always come out of the woodwork. Some level of contingency is essential.

The practical demands of spend-out call for a particular set of skills – this is a job that puts the back-office people centre stage.

Layer your plans

Plans need to operate at different levels. Too much detail makes it impossible for people to see the wood for the trees but it is essential to have all that detail and keep it up to date. An overall schedule with key milestones, supported by detailed sub-schedules, seems to work well.

Look after the cash

An accurate cash flow is essential. The aim is to get as close to zero as possible by closure date, so cash management is critical. Again, a layered approach can work well for different audiences, giving trustees a clear overview while the finance team is managing the detail.

Clear the decks

It is worth simplifying whatever you can in advance. For example, if you have a trading company or any subsidiary charities, deal with them as soon as possible.

Communicate

All staff need to feel involved in spending out and to know what is going on. But, at the same time, it is important not to distract people from getting on with the trust's work or unsettling them by constantly talking about closure.

A good balance means that everyone has a clear overview from the start and knows when critical decisions will be made, but only needs to get into the detail when it directly affects them. In the latter stages of grant-making, for example, everyone needs to be on top of the critical dates – such as the final date for funding decisions, deadlines for reports from grantees, final payment dates, final trustees' meeting and so on.

Keep plans under scrutiny

A quarterly review of planning schedules and cash flow will be fine for most people in the early stages, but it makes sense to move to monthly planning reviews at least a year out from closure – and more often in the last months.

Recognise the value of the right skills

The practical demands of the organisational side of spend-out call for a particular set of skills – an eye for detail and figures, and capacity to manage complex paperwork, combined with an ability to keep a grip on the big picture, to see dependencies, to communicate well and keep everything on track. As one person put it: "*This is a job that puts the back-office people centre stage*".

Coping with change

Spend-out foundations stress how important it is to be prepared for different emotional responses to the spending-out process. No matter how committed everyone is to the plan or how excited they are about what can be achieved in the run-up to closure, they are still coping with a loss. This affects everyone in different ways – including people who joined the foundation knowing that it had a limited life.

Trustees may see themselves as immune from these emotional responses – after all, they have no need to worry about how they will learn a living and spending out was their decision. But the reality can be very different. Trusteeship brings both responsibilities and privileges, which become an important part of many people's lives. It is not only staff who may need support and encouragement to keep on track with the process, as well as to think about what they want to do next.

6 Getting to grips with the nuts and bolts

Legal arrangements

The technical options for closure depend on the provisions of each governing document. Trustees will need to be assured that they have had the proper legal advice in choosing the best approach.

Some spend-out foundations have been required by their constitution to close down completely, with no transfer to a successor body. This means that any issues arising after closure must be dealt with by trustees or someone acting on their behalf – and experience to date suggests unforeseen queries and liabilities may still be emerging several years down the line. Others have no choice but to find – or create – a merger partner, willing to take on any residual assets and liabilities. Where they have a choice, the indications so far are that most spend-out foundations prefer to make a clean exit, leaving as soon as possible after they have completed their grant-making and keeping post-closure activity for trustees to a minimum. So, if a willing partner can be found, many see transfer of assets as the best route. Key areas of learning so far are as follows.

Take good legal advice

Also, do test the practical implications of each option rigorously, as each will have its pros and cons. Even with a strongly preferred, realistic route, it is wise to have a plan B.

Even the most positive transfer negotiation will take time and cost money.

Consider whether any significant assets will remain after spend-out

Although the aim is to empty the 'grants pot', any foundation that, for example, owns its own premises or other valuable fixed assets has strategic decisions to make about whether it wants to release their value to support more grants or to transfer them for appropriate charitable use by another organisation. Either way, this will add time and complexity to the spending-out plan.

Think early about plans for 'post-closure'

Everyone preparing for spend-out works hard to tie up all the loose ends as quickly and neatly as possible. But some post-closure activity is inevitable. Last-minute problems can disrupt the best laid plans – for example, if an unexpected cheque turns up the day before the bank account is due to close and there is not enough time to clear it. Some have experience of donations – and bills – arriving months or years after closure. And some things simply cannot happen until all activities have finished. For example, if the trust is a registered company, it can only be removed from the register when it has ceased trading for a specified period. The advice is to do as much as possible to create an 'empty shell' but to be really clear about what will happen if it turns out not to be completely empty.

Copyright issues

Some foundations have a significant body of publications and need to decide whether they want to assign these rights or protect them in some other way.

At some point, all spend-out foundations need to know exactly how much money they have to spend.

Finding a transfer partner

Any organisation taking on a transfer of assets needs assurance that it will not be exposed to unexpected claims from third parties, or that it will be receiving assets sufficient to cover any liabilities that may arise. As always, the devil is in the detail. Even the most positive transfer negotiation will involve the transfer partner in legal and financial due diligence work, which will take time and cost money.

Grant agreements

Spend-out foundations generally hold many hundreds of grant agreements, which may carry certain long-term rights – for example, to reclaim misspent funds. Transferring these to a successor organisation is an option. However, most have concluded that the complexity involved and the relatively low chance of these rights being exercised means formal termination or retaining these agreements in the original charity are more realistic options.

Managing the legal process

Especially where a spend-out foundation manages more than one legal entity, the process of closing down is a technical job that needs doing systematically and generates a huge amount of paperwork. Some pass whatever they can on to their professional advisers, but some have successfully managed much of the process in-house. Most of the practicalities of spending out need people who are good planners, are very methodical and have great attention to detail. With the right legal advice, their skills can equally be used to manage much of the detail of closure or transfer.

Investment and finance

'Getting to zero' – or as near as possible – raises challenges for trusts more used to managing a regular spending plan and having a reasonable financial cushion to fall back on. Key learning from those who have done it follows.

Be clear what you will be spending

At some point, all spend-out foundations need to know exactly how much money they have to spend. This means moving out of investments with a higher-risk profile or longer-term horizon into secure bonds or deposits, timed to mature in line with the demands of the spending-outbudget.

Detailed cash reporting and reviews

Everyone stresses the need for very detailed cash flow reporting and proper scrutiny of the money at all levels and for the implications to be understood by everyone. Particularly where the foundation will be making new grant decisions very close to the point of closure, there is no scope for any part of the process to fall behind schedule. How will other risks be managed – for example, what will happen if something goes wrong with a planned grant because another donor withdraws funding? Keeping the delivery plans and the cash flow completely in line with each other is critical.

Unless trustees are able to take a very hands-on role, then having engaged staff, with the right kinds of skills – and keeping them in place during the final phases – is crucially important.

Create certainty wherever possible

There comes a point in spending out when it is worth spending money to reduce risk. For example, although it may be cheaper to employ a decorator to repaint the office after moving out, agreeing a fee with the landlords to do this means one less thing that might go wrong after closure.

Handling the year end

Towards the closure date, everyone moves towards paying for as much as possible in advance, in order to make sure final accounts can be prepared quickly after closure. This includes both last-minute expenditure – such as travel costs for the final trustees' meeting – and paying for legacy items – such as hosting the website or storage of accounting records.

Contingency fund

The level of contingency that spending-out foundations have put aside varies considerably but all have made some provision for unexpected costs. Some feel they have to plan for the worst case right to the end. And most would suggest erring on the side of caution – even though there is an understandable desire to make as much money as possible available for grant-making. Some argue that reaching an agreement with a transfer partner with compatible aims takes some of the pressure off. If funds are left at the point of closure, they will be well used.

Staff and HR

Although staff have – in many cases – been key players in encouraging trustees to think about spending out, there is no doubt that working for a spend-out foundation can be a double-edged sword. Many staff – in different kinds of roles – talk about how much they have valued the chance to work in a different way and to achieve something challenging and distinctive. They have appreciated a strong sense of common purpose within the foundation and of the contribution that everyone has to make to a successful spend-out. But there is no getting round the fact that closure means looking for a new job – and the final stages of closure means saying goodbye to valued colleagues, as different elements of the process are complete. Unless trustees are able to take a very hands-on role, then having engaged staff, with the right kinds of skills – and keeping them in place during the final phases – is crucially important. The main lessons spend-out foundations have learnt are as follows.

Keep everyone informed and involved

Openness, transparency and fairness are key to keeping everyone on board. As we have emphasised, spending out is a team effort and the benefit of excellent staff engagement cannot be overestimated. Although staff will be keen to understand what spending out means for them in practical terms, they cope much better with inevitable uncertainties in the process if these are discussed openly and there is a shared sense of when they will be resolved. In very small teams, it may be possible to keep everyone well-informed through day to day contact but – in general – spend-out foundations would recommend setting aside time for regular staff meetings to make sure this happens.

Spending out is a team effort and the benefit of excellent staff engagement cannot be overestimated.

The right team at the right time

Spending out means taking a hard look at the skills available in the foundation and creating a team that can do everything needed to achieve it, efficiently and effectively. These will not necessarily be the people in post at the time the decision is taken. New staff may be needed and some posts may no longer be a priority.

Unless the foundation is very small, staff will be moving on at different times. Generally, grants staff finish first, as final grants are approved by trustees, leaving finance and administration staff to complete the practicalities of closure and transfer. Some have found they needed to increase staff towards the end, for example, to manage external communications about the legacy of the foundation, or to help with setting up an archive. Again, good communication is essential, as well as proper acknowledgement of everyone's contribution when it's their time to leave.

Redundancy packages and financial incentives

It makes sense all round for trustees to agree good severance terms as part of spend-out planning. No matter how committed to the plan and motivated they are to complete it, most staff have no choice but to start looking for other work, if there is no financial bridge to support them post-closure. As well as risking the loss of critical knowledge and skills, job hunting distracts people's attention at a time when the foundation needs everyone to be most focused.

Enhanced redundancy terms are the norm for spend-out foundations, although the level they are set at varies. Trustees take different views on the balance to be struck between supporting staff, enabling them to stay to the end, and making sure as much as possible can be spent on grants and initiatives. Some are prepared to offer phased redundancy terms, offering 100% to those staff who stay until their agreed finish date and a declining percentage to those who leave earlier. Others take an all-or-nothing approach, setting a redundancy date for each post and making no payments to anyone who leaves before it. If there is further work for the post-holder after this date, they may be offered it on consultancy rates.

In general, spend-out foundations appear to favour consistent redundancy terms for all staff. Any special bonuses tend to be small in comparison to the general settlement – and may be given, for example, to staff who have agreed to keep their leaving date flexible to cope with last-minute problems post-closure. This supports their argument for an approach that is – and can be seen to be – fair and consistent and that values the team effort that is needed to achieve a successful spent out.

Most have found that redundancy terms loom large in early discussions about spend-out. However, once a deal has been agreed – and provided it is seen to be fair and the foundation sticks to it in practice – it stops being contentious or the subject of much debate.

Career development support

A number of spend-out foundations offer additional support to help staff get ready for applying for other jobs or to develop a new skill or interest. These arrangements have included one-to-one advice from HR professionals, coaching sessions, advice on CV writing and interview skills, and funding for training or enhanced qualifications. These have been well received – both because of their practical benefit and because they are seen as an imaginative and thoughtful offer.

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Risk management

Staff may be asked to sign compromise agreements as part of their severance arrangements. This involves waiving certain employment rights, for example, to make a claim for unfair dismissal, in exchange for an enhanced financial settlement. Views differ on how necessary this is, but, if a transfer partner is involved, they may well insist this is done to reduce potential liabilities. It also simplifies questions about access to personnel records. If staff have signed a compromise agreement, the transfer partner simply needs a copy of this agreement and nothing else.

Operations

Closure means ending all contracts, getting rid of all equipment and leaving offices in good order. Although none of this need be complicated in itself, it does need thorough and systematic planning if nasty surprises are to be avoided. Some tips from people who have been through it are as follows.

Don't give up services too soon

For example, if you decide you can manage without an office in the latter stages, the organisation will still need phone and broadband services until the point of closure.

Start the detailed work early

As discussed above, it is worth checking all contracts at least two years in advance, as some notice periods are very long. Some have reported serious difficulties making arrangements with slow or unhelpful suppliers, stretching relatively simply negotiations over many months. A detailed checklist is essential for keeping on top of renewal dates, extension arrangements and so on.

Negotiate around rented premises

Getting a break clause in a rental agreement to coincide with the closure date is not straightforward and some negotiation is inevitable. Also, the foundation does not want to receive an unexpectedly large bill for dilapidations when the offices are vacated. Some have been able to negotiate helpful changes to terms when renewing their lease. For example, reaching agreement that all fixtures and fittings can be left in place hugely reduces the uncertainty about the cost of dilapidations. When negotiating early surrender of a lease, it will usually be possible to ask the landlord's agent to do a review of potential dilapidations in advance. Although the final figure will not be known until the office is empty, this provides a reasonable basis for planning.

Disposing of furniture and equipment

Recycling services, local charities or schools may be ready to take useful items. There will be accounting questions to deal with if these items have not been fully depreciated in the accounts. As always, it is important to wipe all computers to ensure compliance with data protection legislation and protect confidential documents more generally. There are likely to be some things that simply have to be scrapped or thrown away – some have encouraged staff to give new homes to, for example, pot plants or pictures that are not worth anything and cost money to dispose of.

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Records and archives

Spend-out foundations need to think about two different kinds of records – those that are required for legal and accounting purposes and those that tell the story of the foundation, its work and legacy. There is no flexibility about the legal records, which have to be retained for a fixed period of time, whatever a foundation's attitude to leaving a record of its activities. But legacy records can raise complex questions about what may be of value and who makes that judgement, as well as practical challenges over organisation, storage and access arrangements.

Some plan to hold all their documents as electronic records, wherever this is an acceptable format. Others are committed to holding as much as possible on paper, despite the additional costs of storage and access. In either case, the advice is to get on top of the filing system as early as possible, weeding out unnecessary or duplicate documents. This can be a very time-consuming business and most would advise against leaving it until the end of the spending-out process – although there are some attractions in dealing with it once other activities have stopped, if resources allow. Some have decided to outsource scanning of all documents to create a full electronic record.

Legal requirements

As a legal minimum, spend-out foundations have to keep accounting, personnel and legal records for the same period as if the organisation were continuing to operate. So they are generally looking for the most economical way to store them, combined with the capacity to allow access if this is needed.

Trustees remain responsible for the foundation's activities during their term of office, even after closure. So they will, at least, need copies of key documents and a means to access other records, as required. A decision to create an electronic archive makes this a much easier process, as each trustee can hold a full set of scanned documents, with hard copies and originals stored separately where this is necessary. Those that have done this would recommend providing a password protected hard drive for each trustee, with a written cover note about the contents and filing structure.

Most trusts will leave a full set of the required records with their accountants or legal advisers, often on payment of a storage fee in advance. A transfer partner may be willing to hold these records but, in general, trusts prefer to make a distinction between matters for its own trustees and matters for the partner organisation. So they are more likely to pass on an abbreviated set of records, excluding those that are not part of the transfer agreement (for example, personnel records where a compromise agreement has been signed). Where an external organisation is used to manage payroll or investments, they are legally obliged to keep records for the required term. A simple exchange of letters is sufficient to set out what should happen in the event of a query post-closure.

Foundations have a particular interest in which of their detailed grants records to keep and for how long.

Access agreements generally require any organisation holding the trust's records only to release them when legally required to do so or with the consent of the Chair or nominated trustees. Unless the trust has plans to hold a complete archive of its activities for posterity, these agreements will usually make provision for disposal of records. This may be carried our automatically after the agreed period or when authorised by an officer of the foundation (usually the Chair).

Grant records

Foundations have a particular interest in which of their detailed grants records to keep and for how long.

The 'hard line' view is that the grant relationship comes to an end when the foundation closes and all contracts are terminated. If fraud or insolvency happens after that point, it is unfortunate but there is nothing that can be done. There is no need to keep detailed records for the longer term, as all the grants the foundation has made are listed in the annual report. The other extreme is to keep all the grants files, in paper or electronic format, both for historical purposes and so that action can be taken – either by trustees or the transfer partner, if this has been agreed – if there is any evidence of mismanagement or illegal activity with funds donated by the trust.

In practice, most spend-out foundations probably end up somewhere between these two extremes. Some, for example, take the view that a simple record of the grant is sufficient for historical purposes, but trustees want to retain the right to follow up recent, substantial grants if serious problems are uncovered. Others are keen to keep more detailed records of their grant-making activity but happy to leave any wrongdoing with their funds after closure to be dealt with by the police. Some feel searching their annual reports is not the most straightforward way to see their grants' history and have left electronic lists and summaries with the Association of Charitable Foundations, as the membership body for trusts and foundations, to be made available on request.

A professional archivist offers an independent eye on the story of the foundation and what information might be interesting and useful in the future.

Preserving and communicating the legacy

Spend-out foundations need, at a minimum, to let people know that they are no longer operating. For those that are keen to share their learning or a record of the foundation, the website is a good entry point for presenting a history and case studies or viewing relevant evaluations and other documents. All those that have closed so far have set up static websites, paid for in advance for a three- to five-year period. Those that are transferring their assets to another charity transfer the domain name and some responsibility for basic maintenance to their partner. Others have made payments in advance to a commercial website management company to keep the site running for an agreed period.

This does not solve the broader question of what to do with the 'unprocessed' records of a foundation's activities. Some spend-out foundations admitted to feeling out of their depth in making judgement on the balance between historical value and the challenges and cost of proper storage. Because of the nature of their work, some have natural connections with universities and other academic institutions and a number of archives have found homes with these partners. National archives, like the British Library, are taking an interest in the social history of one of the most high-profile of the spend-out foundations, and there is evidence of an increasing interest amongst archivists in charity records more generally.

The value of this kind of professional engagement is that it gives spend-out foundations access to expertise on issues like data protection, freedom of information, access arrangements and management of sensitive information. It also offers an independent eye on the story of the foundation and what information might be interesting and useful in the future. Where a potential archive partner has been identified, foundations stress the need to spend time on setting up appropriate agreements.

No matter how interested an external organisation might be in principle, time, space and money to develop an archive will be limiting factors on many occasions. Some foundations are willing to put funds into creating a high-quality archive: others end up deciding that they will confine themselves to the legal minimum and a time limited website, with all other records shredded for disposal.

8 Saying goodbye

Without going beyond the bounds of reasonable expenditure of funds for public benefit, those foundations who have spent out would encourage others following them not to forget the need to share their achievements and thank trustees, staff, partners and friends of all sorts for the part they have played. If some kind of event is planned, the official closure date is usually too late. Grants staff, for example, will generally have moved on by this stage, leaving their finance and administrative colleagues to complete the spending-out process. Spend-out foundations are in the happy position of having decided to move towards closure and of having the time to do it well – and this is something well worth marking.

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