

NPC RESPONSE TO THE CONSULTATION ON THE CHARITY GOVERNANCE CODE

Written evidence by New Philanthropy Capital

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Overview

NPC's mission is to support charities and funders to achieve the greatest possible impact for the causes and beneficiaries they serve. Governance is at the heart of how charities are run, and at their best, boards can enable charities to be bold in these uncertain times, and achieve ever greater impact. Yet too often we find organisations where boards are coasting along and not driving the sort of transformation needed for charities to flourish.

Much of the current policy debate around governance, understandably, focuses on preventing catastrophic collapses such as occurred with Kid's Company. But the task of raising the sights of the wider trustee base in the sector is just as important. So NPC welcomes the efforts to produce a new Code of Governance to do just that. In particular we welcome recommendations to pay greater heed to the mission of the organisation, to the call to improve diversity and take ownership for rebuilding public trust.

However there are a number of areas detailed below where we think the Code could be even stronger and enable boards to be at the forefront of driving greater impact for the causes and beneficiaries their organisations exist to serve.

Impact

NPC welcomes the first section on organisational direction and purpose. However impact is only mentioned once, in the context of evaluation. Yet, as the Code suggests, the charitable purpose (or mission) of the organisation is why the organisation exists in the first place. A focus on the difference being made by the organisation—the impact—is critical to understand where to direct efforts and energies in the future.

In reality the regulatory drivers often incentivise trustees to think primarily of financial and organisational sustainability. In order for real transformation in culture and behaviour to be affected, trustees need to actually base decisions on what will achieve the greatest impact.

Taking an impact first approach will lead trustees to different considerations, some of which are outlined later in this section of the Code. For example trustees may review the basis of the evidence of their impact and decide that some activities are more effective than others. Or that they may not be the best organisation to carry out those activities and should work with partners to achieve a greater collective impact.

NPC recommends that the key outcome at 1.1 should be amended to include an explicit recommendation for trustees to put impact at the heart of decision making.

To cement this we suggest the Code should also include a recommendation that boards report on their impact annually, and outline what they plan to do to deliver greater impact the following year, along the lines we have outlined previously in our governance policy paper [*It starts from the top*](#).¹ The exact form this takes should be proportionate to the size of the charity.

Furthermore the current wording at 1.3.2 does not say what boards should do after assessing results, outputs and outcomes. It is important that reporting on impact is used both as a way to learn from what has gone well and what could be done better to improve services, and to demonstrate to stakeholders how the work of the charity is going. We suggest amending this recommendation to encourage boards to take appropriate action, including making changes to reflect learning, as a result of assessing and evaluating impact.

¹ Joy, I and Murray, P (2016) [*It starts from the top: Improving governance, improving impact*](#). New Philanthropy Capital

Appetite for risk

In our work with charities and trustees we too often find that risk averse boards can be a brake on innovation and transformation. We welcome the acknowledgement that being risk averse is a risk in itself at 4.6.2, but we would like to see more done to support boards being bolder in how they approach risk. The challenging times the sector inhabits demand bolder, more innovative action, and boards need to be ready and willing to take calculated risks to deliver greater impact.

Furthermore, although identifying opportunities is mentioned in the Rationale, the detail all focuses on managing risks. Whilst the Code is clear this isn't a tick box document, realistically some boards may see it as that, so we suggest there should be a recommended practice around actively identifying and managing opportunities as well as risks.

Finally, ensuring boards have a clear understanding of the trade-offs between the different types of risk—financial, strategic and operational risk for example would support trustees in understanding the dangers of focusing on safeguarding the finances alone and missing opportunities to innovate and deliver greater impact as a result. NPC recommends that an explicit statement is added to bring out this point further.

Financial responsibility

As previously stated there is a challenge to support boards to focus on their mission and their impact when much of the regulatory incentives steer trustees to think largely of financial sustainability and organisational survival first. However as it stands the Code does not include much discussion of financial management. We do think the Code has to remind trustees that they are joint and severally responsible for finances and should include a brief section. We suggest this should include recommendations that trustees should:

- Take steps to ensure finances are managed properly, by appointing suitable staff/officers, and ensuring appropriate policies/procedures are in place and followed.
- Take the trouble to review and understand the financial information presented to them.
- Act on the financial information presented so as to ensure that, where possible, the impact of an organisation is safeguarded, e.g. by making contingency plans when financial prospects are uncertain.

Clearly in such challenging times its not always charities' fault that finances are very uncertain, but that doesn't excuse a failure to look ahead and make contingency plans. For struggling organisations the focus if you are unable to make the finances stack up should be to close in an orderly fashion. Too often we see organisations where boards take decisions on closure too late and are much less able to merge or be taken over in a way that achieves the best outcomes for beneficiaries.

Clarity on recommendations

Throughout the Code there are a number of recommendations that we feel could be tightened up to ensure clarity on who needs to do what. NPC suggests incorporating the following changes:

- 1.2.1 Strategy development should be carried out jointly with management in order to ensure a joint vision that is delivered by the senior management team.
- 1.4.1 The external environment will be varied and complex for many organisations, and cover a multitude of areas. But there are some clear factors that should be common across the sector that will need to be considered by boards. We suggest that explicitly listing the changing nature of need, the wider policy

environment the organisation operates in, and technological advances will provide further clarity to boards on key things they need to consider and ensure this recommendation is interpreted in a meaningful way.

- 1.4.2 Having undertaken strategic reviews it is important that boards also consider whether radical new models will meet need in a more impactful way.
- 6.3.1 Currently reads 'Trustees are provided with timely and clear information.' This does not specify whose responsibility it is to provide that information. We suggest amending to read 'Trustees should ensure that management provides timely, relevant and clear information'.
- 7.4.1 Openness and integrity should include being open about difficulties and challenges, as well as achievements.

Next steps

Notwithstanding these suggestions to improve the code, if the Charity Governance Code were adopted across the sector it would undoubtedly lift the sights of boards and support charities to deliver greater impact. Dissemination and support to boards to take up the Code will be necessary to do this. To this end we strongly welcome the Charity Commission stating that they will direct charities to the Code as ['setting out relevant standards of good practice'](#)².

² Charity Commission, *The changing face of the Charity Governance Code*, February 2017

TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy which occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

Increasing the impact of charities: NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

Increasing the impact of funders: NPC's role is to make funders more successful too. We share the passion funders have for helping charities and changing people's lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

Strengthening the partnership between charities and funders: NPC's mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.

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