

THE CODE OF GOOD GOVERNANCE: HOW TO PUT IT INTO PRACTICE



NPC briefing, July 2018

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On 19th March 2018, NPC and The Clothworkers' Company held a seminar exploring what the [Charity Governance Code](#) means for trustees and how organisations are putting it into practice. This report outlines the issues discussed and summarises advice from our speakers.

The seminar was chaired by **Dan Corry**, Chief Executive of NPC and the panellists and topics of discussion were:

- **Craig Beeston**, Policy Officer, [ICSA: The Governance Institute](#), discussed an overview and implications of The Charity Governance Code and how it relates to the 'Taken on Trust' report.
- **Christine Fogg**, Vice Chair, [Royal Free Charity](#), spoke about her experience of applying the Code at Royal Free Charity.
- **Gail Scott-Spicer**, Deputy Chair, [Money Advice Trust](#), shared practical ways to implement the key principles.

Roundtable discussions and a question and answer session followed the panellists' comments, allowing delegates to discuss common issues trustees face when implementing the Charity Governance Code.

What challenges do trustees face?

*'Charity trustees are the social muscle of our sector: largely unseen, and without financial reward, trustees are the stewards of over £75 bn in charity income each year and lead the way in ensuring the 167,000 charities on our register deliver on their mission.'*¹

Charity Commission response to the Taken on Trust research of charity trustees

Charity trustees are under scrutiny like never before. In recent years, critical media coverage and concerns around governance and fundraising practices, have contributed to a reported decline in the public's trust and confidence in charities. Combined with increasing regulation, increasing demand for services, and decreasing funding, trustees are under more pressure than ever before.

There are approximately 700,000 trustees in England and Wales. Trustees play a vital role in running organisations, with an estimated time value of at least £3.5 bn per annum.² It is a charity's board of trustees that

¹ Quote from [Charity Commission response to the Taken on Trust research of charity trustees](#)

² The Charity Commission (2017) [Taken on Trust: The awareness and effectiveness of charity trustees in England and Wales](#)

bears full legal responsibility for maintaining proper standards of governance within the organisation.³ Alongside this, 80% of charities have trustees who play both a governance role and a frontline executive role and have no staff to support them.

The event shone a light on these challenges, with the following elements of the Code emerging as key areas of discussion:

- Diversity;
- Decision-making, risk and control;
- Board Effectiveness;
- Implementing the Code effectively;

These key areas are looked at in more detail in this paper.

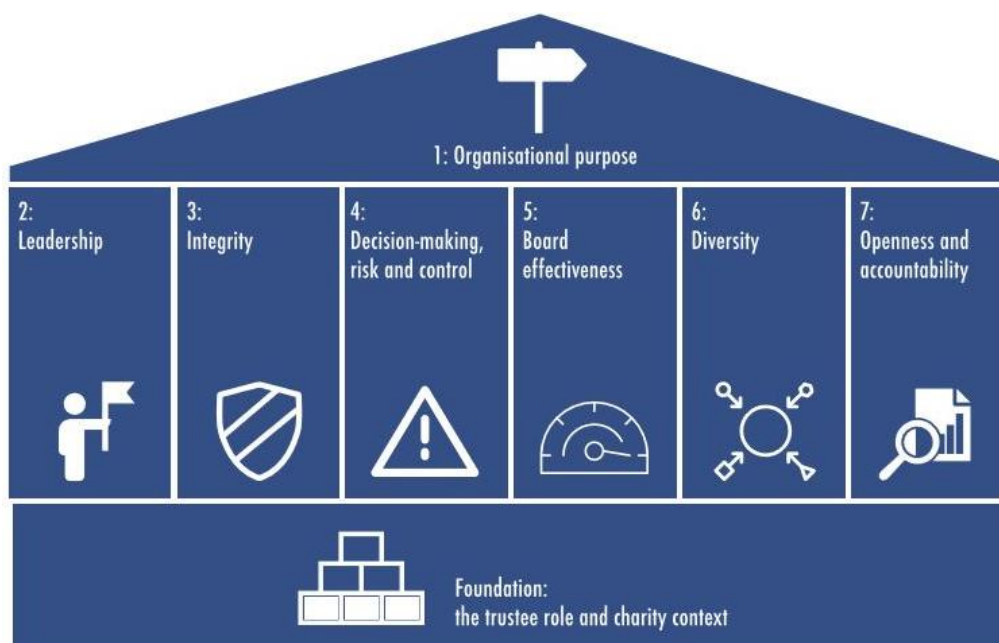
The following three sections present examples, ideas and advice from the speakers in how to implement the Charity Governance Code effectively. It also includes suggestions from organisations on the next steps for developing the Code further.

The Charity Governance Code

[The Charity Governance Code](#) is a statement of best practice. It was originally created in 2005 by a steering group of organisations working in the charity sector. The third iteration of the Charity Governance Code was released in July 2017, after consultation with over 200 individuals and organisations, to include updated thinking on governance and promote discussion about the standard of governance in the charity sector.

The aim of the Code is to help trustees develop high standards of governance by following seven principles. The Code assumes a charity is meeting its legal and regulatory responsibilities, and the principles build on this. The seven key principles are outlined below:

Figure 1: The Charity Governance Code



³ House of Commons: PACAC. *The collapse of Kids Company: lessons for charity trustees, professional firms, the Charity Commission, and Whitehall*. Paragraph 62, page 22.

Applying the Code

The Code is not a legal or regulatory document. Instead, it highlights fundamental principles and best practice for good charity governance. It can be used by charities to review and reflect on its governance processes and consider where it is doing things well and what could be improved and should allow organisations to consider all aspects of governance. Craig Beeston, Policy Officer at ICSA states that when applying the Charity Governance Code, charities should approach it with three things in mind—proportionality, aspiration and on-going application.

Proportionality

It is important that the Code is applicable to a diverse range of organisations. Because of this the Charity Governance Code Steering Group created two different versions for [small](#)⁴ and [large organisations](#). Both versions of the Code are underpinned by the same principles but are designed to acknowledge the differences in capacity of organisations.

‘For governance to be effective it has to be sustainable and for it to be sustainable it has to be proportionate to the capabilities and needs of each organisation.’

Craig Beeston, Policy Officer, ICSA

The Code aims to promote a discussion on what is relevant for a charity now, what has never been relevant, and what trustees may need to consider in the future.

All trustees are encouraged to meet the principles and outcomes of the Code by either applying the recommended practice or minute and explain what they have done instead or why they have not applied it. The Code is not a regulatory document, but uses [the ‘apply or explain’ method](#), recognising the diversity of the sector.

Once explained internally using this method, organisations should also explain it more widely to anyone interested in its work to ensure transparency. This could be by simply adding a brief narrative statement in their annual report explaining their use of the Code.

‘It is important to take the time to consider it properly and not just think it is just a paragraph in the annual report.’

Gail Scott-Spicer, Deputy Chair, Money Advice Trust

Aspirational

The Code has been intentionally written to challenge organisations. It is designed to act as a tool for continuous improvement and something to aspire to, rather than a one-off tick box exercise.

‘We want charities to stretch themselves, we want them to see what good practice looks like and how far they could reach for that, but we are also conscious that some parts [of the Code] are just not applicable for some organisations.’

Craig Beeston, Policy Officer, ICSA

‘It is a tool for continuous improvement not perfection; it is deliberately aspirational.’

Christine Fogg, Trustee, Royal Free Charity

⁴ Small organisations are defined as those that have an annual income of less than £1 million.

Continual Improvement

Good governance and the use of the Charity Governance Code should be an ongoing process that is regularly reviewed, rather than a one-off task. It is not a one-off exercise, or something that charities should achieve by a certain date. The Code is something to revisit regularly and will take multiple stages to implement. Having the Governance Code as a regular agenda item in trustee meetings could increase accountability, help ensure trustees explore what good governance looks like and help organisations be realistic about what they can achieve. This should be done as and when needed and reviewed when differing situations arise.

'I think it is really important that we don't consider the Code as a one hit approach. We need to make sure it is not simply a box ticking exercise, so we are going to review on a regular basis, different aspects of the Code to keep it alive and make sure none of the trustees see it is as an add-on.'

Gail Scott-Spicer, Deputy Chair, Money Advice Trust

Case study: Royal Free Charity

The Royal Free Charity supports the Royal Free London NHSFT patients and staff providing the 'Little Touches and Big Differences' to enable them to have the best experience. The charity does this through interventions such as funding massage therapy, emergency care packs and slippers and equipment as well as large scale capital builds to enable cutting-edge research, all with the support of 750 volunteers across the 3 sites. Their board is made up of eleven trustees, on two terms of three years and are limited to nine years, and multiple sub-committees.

Reviewing the Code

The Charity Governance Code was used as a framework for their external review, which Cass Business School was commissioned to complete. The review identified a few key areas in need of improvement: decision-making, risk, and control, board effectiveness and diversity.

The Board created a development plan which prioritised and phased the key areas of activity, breaking down the work into smaller, manageable chunks.

How to put the Code into practice

1. **Assigning responsibility:** Consider creating a working group, where possible, to lead on discussing and implementing the Charity Governance Code.
2. **Divide and conquer:** Boards could consider dividing the principles up to specific trustees or tackling one or two key principles at a time. There is no one way of doing this and a board might want to discuss different options and decide which method works for the organisation.
3. **Preparing your board:** If there is less awareness of the need for change within the trustee board, the senior management team could complete an initial analysis of the Code ahead of the board. This could help highlight the areas in need of change and stir the conversation.
4. **Engaging the organisation:** Engaging both the senior management and the board in Governance Code discussions as they are more likely to understand the day-to-day implications.
5. **Framing your governance review:** Whether an external or internal review, organisations can use the Charity Governance Code to frame the review and their implementation plan.
6. **Applying and explaining:** It is very simple to go through the Code and to draw a line through anything that you consider not relevant to your organisation. You must have the discussion first and explain why you are not applying it. It is also important to review all aspects of the Code as things change, and elements may

change in relevance. The Code acknowledges that implementing all elements of the Code isn't always possible or relevant, but it is about getting a balance that is suitable for your organisation.

Case study: Money Advice Trust

The Money Advice Trust is a national charity helping people across the UK to tackle their debts and manage their money wisely. The charity is 20 years old, help approximately 1.3 million per annum, have 200 staff members and an income of £9+ million. The board is made up of 10 trustees and multiple sub-committees, such as their new finance and strategy committee.

Reviewing the Charity Governance Code

The initial review of the Charity Governance Code was completed by their company secretary. It was then discussed and challenged by the SMT to ensure all angles were considered, before being taken to the board for a more concise discussion.

The board were encouraged to review the charities progress in all areas of the Code but identified four key areas in need of development: **apply or explain, decision-making, risk, and control, board effectiveness and diversity.**

Apply and Explain

The trustee board reviewed the Charity Governance Code using the apply and explain method. The board also discussed and articulated clear examples of how the charity meets the Code and reasons for why certain areas do not apply to the Money Advice Trust. This is regularly reviewed in trustee meetings.

Key themes

Many of the points raised by the speakers were also mirrored in the group discussions, such as group dynamics in trustee boards and diversity. Other issues raised were the concept of remuneration of trustees, safeguarding and an uncertainty with how to implement the Code effectively.

Diversity

[The Taken on Trust research](#) identified a lack of diversity in trustees, with male trustees doubling female trustees and most being White British, older and having an above average salary and education. Just under a quarter of trustees also sit on multiple boards and are over reliant on each other's networks for recruitment and advice. This suggests a lack of diversity in individuals, experiences and opinions and could lead to less effective decision-making.⁵

Women, young people, and people from ethnic minority and socially diverse backgrounds are underrepresented on charity boards. In response to this, diversity was highlighted as a new principle in the Governance Code. The principle is about embracing diversity in its broadest sense of attracting different demographics, experiences, and thinking to organisations, but also making it attractive to those people. Think about adapting trustee requirements, meeting logistics and meeting content to make trusteeship more accessible to a wide range of people.

Discussions showed a general willingness to want to increase diversity on boards, but an overall frustration and uncertainty about how to do it effectively. Many acknowledged a reliance on informal recruitment through their networks and only speaking to the 'usual suspects.' This can be mirrored by research from the Charity Commission, with almost three quarters (71%) of trustees being asked to become a trustee informally by a member of the board. Increasingly, charities have access to, and are benefiting from an open and active

⁵ The Charity Commission (2017) *Taken on Trust: The awareness and effectiveness of charity trustees in England and Wales*

recruitment process using social media, recruitment websites and the range of digital tools, to reach beyond their usual networks. Charities should make their selection processes as professional as possible with full applications, role descriptions, panel interviews and references. NPC's [Diversity in Governance seminar report](#) provides insights about how organisations can increase their diversity.

Trustee recruitment

Many organisations in the room were keen to increase the representation of service users on its board, but many identified difficulties with engaging them effectively. Recruiting young people as trustees was considered particularly difficult for multiple reasons, including a lack of awareness of trustee roles, a lack of confidence and a lack of time to commit. Additionally, it was identified that in some situations it may not be appropriate or possible to have young people on a board if they are under 18 years of age (individuals must be 16+ for a Company Limited by Guarantee or Charitable Incorporated Organisation and must be 18+ for Trusts and Unincorporated Associations.) It was suggested that ex-service users may be more appropriate to engage with.

Practical suggestions to increase engagement with young people and service users included; involving them in more ad hoc service development or a committee initially and then encouraging them to move up into a trustee position over time or altering meeting times to 4-6pm as a compromise between staff staying late and it not eating too much into the work day for those who work or are in education.

Remuneration of trustees

Remuneration was highlighted as a potential option for encouraging trusteeship and commitment. Others suggested this could change the motivations of trusteeship and attract the best people only to the organisations that can afford them.

Skilled volunteering

Engagement from employers and an inability to have volunteering days was identified as the key barrier for many. Many believed this contributes to the lack of diversity of age among trustees because employers are not keen to give time off, making trusteeship more accessible to those who are retired. Although it was acknowledged that larger corporate organisations moving towards allowing skilled volunteering days, there is still lots of room for improvement. It was suggested that an accreditation for trustees could encourage business to engage more with the concept of trusteeship and allowing staff time off.

Royal Free Charity

Diversity stood out for them in the Code. The Royal Free Charity believe the charity has 'fantastically diverse staff and volunteers' but are now currently looking at what the organisation can learn from this or highlight what is working well and how this may be applied to the Board. The charity is now investing time to discuss how the organisation can think differently around diversity in relation to Trustee skills and recruitment.

Money Advice Trust

The Money Advice Trust have spoken to Inclusive Boards and have run a few sessions on diversity with NPC around how to attract different perspectives on to their board. A few tips the staff gained include: ensuring the adverts are open long enough to attract the right people, using multiple channels and tailored marketing, thinking about whether any of your requirements could prevent certain individuals from applying. The board have also added diversity to their risk register to ensure it remains a priority.

Decision-making, risk, and control

A quarter of trustees feel the governance skills on their board are not sufficient to meet the needs of their organisation, and the proportion of trustees that feel they have sufficient governance skills increases with the size of the organisation. Smaller organisations face a significant challenge in supporting effective governance due to due to the lack of resources, the necessary balancing of operational and governance and difficulties in recruiting the right people to do the job in small charities lack of resources, balancing governance and operational priorities, and increased difficulties recruiting the right people into roles.⁶

Safeguarding and Reporting

Safeguarding and reporting was highlighted as a key concern among trustee boards now, in the wake of the Oxfam scandal. Transparency was considered key to ensure effective governance practices and about weighing up the immediate reputational risk of disclosing something now and the longer reputational risk of covering it up and the details coming out later.

Royal Free Charity

The growth of the organisation in recent years, the public facing responsibility and risk drove the review of their governance. The organisation has reviewed their meeting processes, risk registers, sub-committees and CEO reports to ensure the board are getting the information they need as the organisation becomes a bigger, more high-risk organisation.

A skills audit was also used to assess the skills and expertise of the board, to identify any gaps and ensure the board 'make best use of the brilliant people around the table.'

The chair was identified as a key to driving change, allowing the board to discuss things differently and drive through changes in processes and practice.

Money Advice Trust

The Money Advice Trust's review identified that the delegation of control needed to be done differently going forward. In practical terms this meant updating the terms of reference for the board and each their sub-committees to make it explicit where monitoring lies within the organisations.

Additionally, the board identified a need to work on point 4.6.4. of the Code, which covers regularly comparing or benchmarking the organisation's performance against other similar organisations. The charity currently benchmarks for pay and HR matters but struggle to carry out benchmarking on organisational performance. The board are currently discussing how they can implement this.

Gail identified it is hard to benchmark organisational performance when there are so many diverse organisations but emphasised that all organisations have a role in encouraging this and called for the whole sector to consider how we facilitate this.

⁶ The Charity Commission (2017) *Taken on Trust: The awareness and effectiveness of charity trustees in England and Wales*

Board effectiveness

Group dynamics and behaviour was raised as a challenge for CEOs to manage. Whilst CEOs can manage this within their operational area of responsibility, they are not responsible for the leadership which the board shows. Leadership starts with the board, who set the culture and values of the organisation and should drive healthy relationships. For progress to be made, the board should push for a mix of support and challenge within the board, and between the board and executive team. Christine Fogg suggested that this should be led and initiated by the trustee board themselves, and the board should also look to create a set of behaviours and values for how the board works.

The relationships within the board—especially relationship between the board and the chair—determine how the board functions. The need for a chair to hold the trustees to account, to challenge and support, was highlighted as a key to getting the right balance of power.

Royal Free Charity

Building relationships between the board members and finding out what interests and excites them is key to board success. The review identified that their trustee meetings format could benefit from a refresh, so the board decided to adjust the structure by creating space for strategic debate on key topics and bringing in individuals from across the organisation to present to the board on specific projects and themes of work.

The charity has fixed term trusteeships and whilst the turnover of trustees was highlighted as being difficult for some boards, it can be helpful for board effectiveness. Christine said, 'When we have the wonderful person in role, how can we bear to let them go, but my sense is that the renewal, the turnover, the change, the fresh perspectives are kind of worth it, even though it can feel tough at the time.'

Money Advice Trust

As a board they already had an internal board review in place, and are looking to continue this, but the charity is also going to introduce an external review every three years, as per the Code.

The relationship between the board members was identified as being essential for good governance. It is about getting a balance between building trust and good working relationships and ensuring a board does not become too friendly. Getting the balance right allows them to get to know each other as a board and how they work so the board can constructively criticise when needed. The regular turnover of trustees was identified as both a barrier to building trust, but also a positive for ensuring the board do not become too friendly.

Practical tips for building relationships within the board included having time for trustees to chat over food or a cup of tea during or after trustee meetings, encouraging trustees to attend all trustee meetings where possible, inviting trustees to stakeholder meetings.

A skills audit assessed the skills the organisation need from the board. These are not just off the shelf skills; the skills are tailored to the specific needs of the organisation. Each trustee then scored themselves under each skill. This helps them make the best use of the skills on the board and identify any gaps.

Other topics were raised such as partnerships, mergers and an uncertainty with how to implement the code effectively.

Suggestions for improvements to the Code

Many organisations reported being overwhelmed and highlighted uncertainty about how to implement the code. It was suggested that a tool on step-by-step support on how to implement the code and templates of best practice resources, would be helpful to. [Templates](#) have been created to help organisations structure and document their discussions when reviewing the Code.

Other suggestions for improving implementation included:

- A summary download of the Code and an increased emphasis on the importance of the Code.
- Bitesize case studies showing examples of organisations using the Code.
- Best practice templates to structure their discussions and implementation plans, such as a skills audit.
- A downloadable 'diagnostic' or 'mapping tool' of where organisations currently are, where organisations can apply the Code and where they aren't applying the Code.
- A database which lists contacts that can help in specific areas of the Code that are low-cost or free.
- Best practice examples of how organisations are using it, to encourage benchmarking and examples to aspire to.
- A tool or framework to help measure the impact of Code and the governance changes on their organisation.

Final thoughts

Trustees play a vital role in running charities, with many in both a governance role and an executive role. Trustees are under more scrutiny than ever before and face unique challenges, such as an uncertainty about how to effectively increase their diversity, decision-making, and board effectiveness. Using the Charity Governance Code can highlight good practice, help boards prioritise areas in need of development, and help maximise their impact.

Further reading

The essential trustee: What you need to know, what you need to do, Charity Commission

Charity Governance Code, ACEVO, ICSA: The Governance Institute, NCVO, SCC, Association of Chairs and WCVA

Charity Governance Code Assessment templates, to help organisations organise their thinking when discussing the Code.

A *webinar on the Charity Governance Code*, by Rosie Chapman and Norman Blissett, Charity Chair and Director of Gallanach about the Charity Governance Code.

ICSA: The Governance Institute, helps charity professionals to achieve the highest standards of governance. They have a wide range of resources to keep you up to date with the latest in charity law and regulation.

15 questions trustees should ask, Charity Commission

Above and beyond in trusteeship, NPC

Transmitting trust through governance: Charity governance review 2016, Grant Thornton

What makes a good charity?, NPC

Board matters: A review of charity trusteeship in the UK, NPC

It starts from the top: Improving governance, improving impact, NPC

Diversity in Governance: The what, why and how, NPC

Why we need diversity?, NPC

Facing Forward: How small and medium-sized charities can adapt to survive, Lloyds Bank Foundation for England and Wales

The Small Charities Coalition has a wide range of advice and materials available on its website www.smallcharities.org.uk, including resources on [governance](#).

NPC runs a series of trusteeship seminars supported and hosted by The Clothworkers' Company. Summary briefings from these sessions are available to download from our website www.thinkNPC.org, where you can also find information about future seminars.

The Clothworkers' Company also holds the annual [Charity Governance Awards](#)—in partnership with NPC, Prospectus and Reach—which has special categories for small charities to celebrate outstanding governance.

TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy. Over the past 15 years we have worked with charities, funders, philanthropists and others, supporting them to deliver the greatest possible impact for the causes and beneficiaries they exist to serve.

NPC occupies a unique position at the nexus between charities and funders. 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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