

# Wales Council for Voluntary Action

Supporting charities, volunteers and communities

## 5. Trustees and governance

### 5.1 Principles of governance



In this information sheet the term 'trustee' is used to describe both governing body members of non-charitable voluntary organisations, and trustees of charities. The term 'charity trustee' is used when it is necessary to differentiate charity governing body members from non-charitable ones.

The term 'board' is used to describe the different types of governing bodies found in charities and voluntary organisations.

### What is 'governance'?

'Governance' is the general term used to describe the legal, supervisory and moral responsibilities arising from trusteeship. The aim of governance is to ensure:

- the organisation complies with legal and regulatory requirements
- the organisation is run within the objects, powers and procedures set out in its governing document
- a strategic plan is created by the trustees to ensure the organisation's survival and growth
- operational procedures are developed to deliver the organisation's objects
- the trustees exercise their duty of care by pursuing sound business practices in running the organisation
- the trustees act prudently by ensuring the organisation's continuing solvency, making best use of its assets and managing risks.

All trustees have governance responsibilities, and a leading writer in the field has described governance as:

*'The systems and processes concerned with ensuring the overall direction, supervision and accountability of the organisation.'* (Chris Cornforth)

So, beyond compliance with the law and high level strategic activities, governance also embraces more practical day-to-day issues in the way that the trustees work with their chief officer, staff and other stakeholders to deliver the organisation's objects. It is about taking responsibility for the running of an organisation and doing everything within the law to ensure its success. This requires a multi-disciplinary approach and that is why it is so important for trustees to have a clear understanding of what governance is – and what it is not.

A distinction must be drawn between the concepts of 'governance' and 'management':

- **Governance** is the term used for the matters which trustees must deal with personally, as opposed to those that they can delegate to staff and others. It is about controlling the organisation and taking overall responsibility for it.
- **Management** is the day-to-day management of operational matters that do not need to be handled personally by the trustees and can be delegated to staff or volunteers. It is about running the organisation, but the control over the organisation still remains with the trustees.

So governance is not necessarily about doing, it is about ensuring things are done. This is usually achieved by delegating authority to the chief officer and staff. Further guidance on this can be found in our information sheet, [Working with the chief officer \(5.6\)](#).

## Approaches to governance

The public has come to expect openness, integrity and accountability in all sectors, and this has been addressed by the development of explicit governance codes and standards by which the conduct of the public, private and voluntary organisations can be measured. An early example of this was the findings of the *Committee on Standards in Public Life* chaired by Lord Nolan. The resulting 'Nolan Principles' came to be adopted by many trustees that were seeking to make an explicit statement about the way they governed their organisations, and the seven principles were:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty, and
- Leadership

In more recent years there has been a concerted effort to analyse and set standards of practice within the voluntary sector in order to help with decision-making, accountability and the work of the board. This has gone hand in hand with an increasing appreciation by trustees of their duties and responsibilities. External pressures have also driven this process, including:

- a push by the Charity Commission to raise awareness of trustee responsibilities
- increased monitoring requirements by funders
- a more interactive involvement with stakeholders, and
- detailed reporting obligations under public service delivery contracts.

Whilst it is easy to analyse concrete elements of voluntary sector activity such as relevant legal obligations, it is far more difficult to codify the intangible responsibilities involved in running a modern voluntary organisation. There have been many descriptions and theories of governance, but it is sensible to focus on those that have the widest application.

As impetus grew it was realised that an agreed sector standard was required and a group of infrastructure associations, including the Charity Commission, came together with the aim of developing a sector wide code. This resulted in *Good Governance – a Code for the Voluntary and Community Sector* ('the Code') being published in 2005, with updated editions and linked versions of the Code being released since then including [Good governance: a code for the third sector in Wales](#).

## The Code

The Code has been specially written to meet the needs of charity, voluntary and community sector organisations, and the Charity Commission supports the Code and its linked versions, encouraging all charities to use it/them. The Code clarifies the roles and responsibilities of trustees and provides guidance in ensuring effective decision-making and accountability.

*'This code is drafted by the sector, for the sector... The purpose of these principles is to assist board members to provide strong leadership, enhance their decision making and demonstrate their accountability This will in turn assist the people and causes their organisations were set up to benefit.'* (p. 4 and 7 of [Good governance: a code for the third sector in Wales](#))

The Code contains a set of six key principles which ensure that the highest possible standards of governance are set for the third sector, and those principles have been designed to be universal and applicable to all voluntary and community organisations. The six principles are set out below:

### (1) Understanding of roles and responsibilities

Members of the board will understand their role and responsibilities collectively and individually in relation to:

- their legal duties
- their stewardship of assets
- the provisions of the governing document
- the external environment
- the total structure of the organisation

and in terms of

- setting and safeguarding the vision, values and reputation of the organisation
- overseeing the work of the organisation
- managing and supporting staff and volunteers where applicable.

## **(2) Delivery of organisational purpose**

The board will ensure that the organisation delivers its stated purposes or aims by:

- ensuring organisational purposes remain relevant and valid
- developing and agreeing a long term strategy
- agreeing operational plans and budgets
- monitoring progress and spending against plan and budget
- evaluating results, assessing outcomes and impact
- reviewing and/or amending the plan and budget as appropriate.

## **(3) Working effectively both as individuals and as a team**

The board will have a range of appropriate policies and procedures, knowledge, attitudes and behaviours to enable both individuals and the board to work effectively. These will include:

- finding and recruiting new board members to meet the organisation's changing needs in relation to skills, experience and diversity
- providing suitable induction for new board members
- providing all board members with opportunities for training and development according to their needs
- periodically reviewing their performance both as individuals and as a team.

## **(4) Board exercising effective control**

As the accountable body, the board will ensure that:

- the organisation understands and complies with all legal and regulatory requirements that apply to it
- the organisation continues to have good internal financial and management controls
- it regularly identifies and reviews the major risks to which the organisation is exposed and has systems to manage those risks
- delegation to committees, staff and volunteers (as applicable) works effectively and the use of delegated authority is properly supervised.

## **(5) Board integrity**

The board will:

- safeguard and promote the organisation's reputation
- act according to high ethical standards
- identify, understand and manage conflicts of interest and loyalty
- maintain independence of decision making
- deliver impact that best meets the needs of beneficiaries.

## **(6) Being open and accountable**

The board will lead the organisation in being open and accountable, both internally and externally. This will include:

- open communications, informing people about the organisation and its work
- appropriate consultation on significant changes to the organisation's services or policies
- listening and responding to the views of supporters, funders, beneficiaries, service users and others with an interest in the organisation's work
- handling complaints constructively, impartially and effectively
- considering the organisation's responsibilities to the wider community, e.g. its environmental impact.

The main principles of the Code, and its detail, can be used to help trustees better understand their role, develop it, be confident that they are doing a good job and help identify areas for further development. The Code is not mandatory but those organisations that comply with it can make a clear statement about their commitment to high standards of governance by referring to it in their Annual Report and other relevant published material.

There are a considerable number of resources to support the Code on the [Charity Commission website](#) and at [www.governancecode.org](http://www.governancecode.org)

## **National Occupational Standards for Trustees and Management Committee Members**

The [National Occupational Standards \(NOS\) for Trustees and Management Committee Members](#) were developed to complement and support the Code. While the Code is for boards as a whole and the organisations that they govern, the NOS are aimed at individual trustees.

NOS define good practice in the way people carry out tasks, based on the functions of their role. They can be regarded as quality standards for people that focus on outcomes – what needs to be done, not how you should do it.

The NOS for Trustees and Management Committee Members are broken down into 4 units:

**(1) Safeguard and promote the values and mission of the organisation** - this unit is about the board of trustees setting out the organisation's long-term direction, upholding its values and delivery of its aims, and your role as a trustee in carrying out this function.

**(2) Determine the strategy and structure of the organisation** - this unit is about present and future strategic planning. It covers decisions about how the organisation's values and mission are expressed in aims and activities, and in the structures and processes needed to implement them.

**(3) Ensure the organisation operates in an effective, responsible and accountable manner** - this unit is about trustees working collectively to ensure their organisation is well-managed, is meeting its aims and needs, and achieving good practice whilst complying with the law. It covers the trustee's role in leading the organisation, and also in ensuring the organisation is managed properly and by the best people available.

**(4) Ensure the effective functioning of the organisation's board of trustees** - this unit is about helping the organisation's board of trustees to work as a team and reach fair decisions in the best interests of the organisation. This requires a range of people whose skills and abilities will ensure that the organisation's board of trustees functions effectively.

The NOS can be used for trustees to:

- prepare role descriptions
- plan recruitment of new trustees
- plan induction for new trustees
- design training for trustees
- identify board learning needs
- review trustees' performance
- demonstrate the standards that your organisation meets.

A toolkit is available to help with use of the trustee standards with a board, or as a trainer working with boards and trustees, and it can be downloaded for free [here](#).

## The hallmarks of an effective charity

The governance responsibilities of charity trustees are greatly increased by the stringent regulatory regime within which charities operate. The Charity Commission publication, *The Hallmarks of an Effective Charity (CC10)*, sets out what the Commission believes to be the attributes of a well-run charity to which every charity should aspire:

*‘Our aim is to provide a framework within which charities have the confidence to carry out their work, innovate and evolve... This guidance sets out the standards that will help trustees to improve the effectiveness of their charity, and the principles that our regulatory framework exists to support’ (p.2 and 3).*

The standards are divided into 6 Hallmarks, which are:

**(1) Clear about purpose and direction** - an effective charity is clear about its purposes, mission and values and uses them to direct all aspects of its work.

**(2) A strong board** - an effective charity is run by a clearly identifiable board or trustee body that has the right balance of skills and experience, acts in the best interests of the charity and its beneficiaries, understands its responsibilities and has systems in place to exercise them properly.

**(3) Fit for purpose** - the structure, policies and procedures of an effective charity enable it to achieve its purposes and mission and deliver its services efficiently.

**(4) Learning and improving** - an effective charity is always seeking to improve its performance and efficiency, and to learn new and better ways of delivering its purposes. A charity's assessment of its performance, and of the impact and outcomes of its work, will feed into its planning processes and will influence its future direction.

**(5) Financially sound and prudent** - an effective charity has the financial and other resources needed to deliver its purposes and mission, and controls and uses them so as to achieve its potential.

**(6) Accountable and transparent** - an effective charity is accountable to the public and others with an interest in the charity in a way that is transparent and understandable.

## **Fit to govern: a ten-point checklist**

This very useful 10-point checklist helps to break down the various high level elements of governance into more concrete activities.

### **(1) Values, vision, and policy:**

- The organisation regularly re-assesses the need that it was set up to address.
- The values of the organisation are clearly understood and stated.
- There is a clear vision and sense of purpose.
- There is a statement of mission or aims, which is well known.
- The mission is fully aligned to the objects set out in the governing document.
- The board has defined policies to guide the organisation's activities.

### **(2) Priorities and strategy:**

- The board has agreed the major priorities for the work of the organisation.
- The board has agreed a long-term strategy to achieve its priorities.
- The board regularly reviews the external environment for changes that may affect the strategy.
- The organisation has realistic objectives and plans to put the strategy into action.
- The authority given to staff to implement plans is clearly defined.

### **(3) Monitoring and standards:**

- The board has agreed standards for judging the value of the organisation's work.
- The standards are used systematically to monitor the progress of the organisation.

- The systems for monitoring performance provide reliable, valid and timely information.
- The organisational structure is fit for its purpose and adds value to the organisation.
- There is an agreed code of conduct for board members, which is monitored by the board.

#### **(4) System and governance:**

- There is a clear structure for governing the organisation.
- The role of the board, sub-committees and working groups are clearly defined.
- The roles of the chair, vice-chairs and treasurer have been clearly defined.
- The board, sub-committees and working groups demonstrably add value to the organisation.
- Board meetings are effective when measured against standards set by the board.
- There is a budget for the full costs of the board, sub-committee meetings, which is regularly reviewed.

#### **(5) Capacity to govern:**

- The board contains a suitable balance of skills and experience to carry out its role effectively.
- The chair and other honorary officers have appropriate skills and experience to carry out their roles effectively.
- There is a board member recruitment, development and training strategy.
- There is a budget for board member training and development.
- The organisation provides all reasonable practical support to enable board members to carry out their roles.
- There are agreed standards for the performance of the board and its members.
- There is a system for appraising the performance of the board, and its members.

#### **(6) Accountability:**

- The board is clear who the beneficiaries of the organisation are.
- The board has a clear understanding of which other stakeholders there are.
- The organisation accounts systematically to all of its stakeholders.
- The organisation communicates effectively with all its stakeholders.
- The board can account clearly for how the organisation contributes to the greater good of society.

#### **(7) Partnership with the chief executive:**

- There are suitable processes to ensure an effective partnership between the board and the chief executive officer (CEO).
- The role of the chair in linking the board to the CEO has been clearly defined.
- The role of the CEO is clearly defined.
- The boundaries between the role of the board and that of the CEO are clear and are reviewed periodically.
- The board establishes clear limits to the authority of staff, subcommittees and working groups.



- The CEO is provided with effective support and supervision.
- The performance of the CEO is appraised each year.

**(8) Stakeholder participation:**

- Stakeholders are involved in defining the standards for judging the organisation's work.
- There are effective processes to ensure that the users of the organisation's services have a real voice in decisions about the services. The views of the stakeholders are regularly gathered and considered by the board.
- Where appropriate, there are clear systems for the election or appointment of key stakeholders as trustees.

**(9) Financial health:**

- The organisation is solvent.
- There are sufficient reserves.
- There is an effective system for financial management and accounting.
- There is effective financial reporting to the board as a whole.
- The board as a whole is competent in taking financial decisions.
- The assets are well managed.
- There is an effective relationship between the board and the organisation's auditors.
- The effectiveness of the auditors is reviewed regularly.
- There is adequate insurance, which is reviewed annually.

**(10) Legality:**

- The board is properly informed as to its legal responsibilities.
- The organisation meets all its legal obligations.
- Board members are aware of their own legal responsibilities.
- The board has access to appropriate legal and professional advice.

You may also find it a useful exercise to complete [WCVA's governance health check](#), which is a self-assessment tool designed to help trustee boards work towards adhering to the principles of good governance. It should also help boards of any size demonstrate their good governance practices to regulators, funders, beneficiaries and stakeholders.

## Further information

Wales Council for Voluntary Action (WCVA)

*Good governance: a code for the third sector in Wales*

*Governance health check*

*Faith and hope don't run charities (trustees do)*

[www.wcva.org.uk](http://www.wcva.org.uk)

Charity Commission for England and Wales

*CC10 The Hallmarks of an Effective Charity*

[www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)

[www.governancecode.org](http://www.governancecode.org)

Co-operatives UK

*Simply Governance*

[www.uk.coop/simplygovernance](http://www.uk.coop/simplygovernance)

Skills Third Sector

*Trustee and Management Committee National Occupational Standards*

[www.skills-thirdsector.org.uk/national\\_occupational\\_standards](http://www.skills-thirdsector.org.uk/national_occupational_standards)

### Disclaimer

The information provided in this sheet is intended for guidance only. It is not a substitute for professional advice and we cannot accept any responsibility for loss occasioned as a result of any person acting or refraining from acting upon it.

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