

# 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. 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 the general law and regulation
- the organisation is run within the objects, powers and procedures set out in the 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 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 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.

- **Management** is the day-to-day management and operational matters that do not need to be handled personally by the trustees and can be delegated to staff. It is about running the organisation.

So governance is not necessarily about doing, it is about ensuring things are done. This is 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 seeking to make an explicit statement about the way they governed their organisations:

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

In 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:

- the 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*, which has in turn generated the accompanying, *Trustee and Management Committee National Occupational Standards*.

## Good governance - a code for the voluntary and community sector

The Code has been specially written to meet the needs of charity, voluntary and community sector organisations, and is endorsed by the Governance Hub, a government funded governance project. The Code clarifies the roles and responsibilities of trustees and provides guidance in ensuring effective decision-making and accountability.

*'This code is primarily aimed at the trustees of voluntary and community organisations, who have ultimate governance responsibilities. It will help them to lead their organisations through example, and to achieve excellent governance. It is also aimed at chief executives, who provide the bridge between trustees and staff, and have a central role in ensuring good governance.'* (p.5)

It is a set of 7 key principles which ensure that the highest possible standards of governance are set for the voluntary and community sector:

**(1) Board leadership** - every organisation should be led and controlled by an effective Board of trustees which collectively ensures delivery of its objects, sets its strategic direction and upholds its values:

- **Role of the Board** – trustees have and must accept ultimate responsibility for directing the affairs of their organisation, ensuring it is solvent, well run, and delivering the outcomes for which it has been set up.

- **Strategic direction** – trustees should focus on the strategic direction of their organisation, and avoid becoming involved in the day to day operational decisions and matters (except in the case of small organisations with few staff). Where trustees do need to become involved in operational matters, they should separate their strategic and operational roles.

**(2) The Board in control** - the trustees of a Board should be collectively responsible and accountable for ensuring and monitoring that the organisation is performing well, is solvent, and complies with all its obligations:

- **Compliance** – the Board must ensure that the organisation complies with its own governing document, relevant laws, and the requirements of any regulatory bodies.
- **Internal controls** – the board should maintain and regularly review the organisation's system of internal controls, performance reporting, policies and procedures.
- **Prudence** - the Board must act prudently to protect the assets and property of the organisation, and ensure that they are used to deliver the organisation's objectives.
- **Managing risk** – the Board must regularly review the risks to which the organisation is subject, and take action to mitigate risks identified.
- **Equality and diversity** – the Board should ensure that it upholds and applies the principles of equality and diversity, and that the organisation is fair and open to all sections of the community in all of its activities.

**(3) The high performance Board** - the Board should have clear responsibilities and functions, and should compose and organise itself to discharge them effectively:

- **Trustee duties and responsibilities** – trustees should understand their duties and responsibilities and should have a statement defining them.
- **The effective Board** – the Board should organise its work to ensure that it makes the most effective use of the time, skills and knowledge of trustees.
- **Information and advice** – trustees should ensure that they receive the advice and information they need in order to make good decisions.
- **Skills and experience** – the trustees should have a diverse range of skills, experience and knowledge needed to run the organisation effectively.
- **Development and support** - trustees should ensure that they receive the necessary induction, training and ongoing support needed to discharge their duties.
- **The chief executive** – the Board should make proper arrangements for the supervision, support, appraisal and remuneration of its chief executive.

**(4) Board review and renewal** - the Board should periodically review its own and the organisation's effectiveness, and take any necessary steps to ensure that both continue to work well:

- **Performance appraisal** – the Board should regularly review and assess its own performance, that of individual trustees, and of subcommittees, standing groups and other bodies.
- **Renewal and recruitment** – the Board should have a strategy for its

own renewal. Recruitment of new trustees should be open, and focused on creating a diverse and effective Board

- **Review** – the Board should periodically carry out strategic reviews of all aspects of the organisation's work, and use the results to inform positive change and innovation.

**(5) Board delegation** - the Board should set out the functions of sub-committees, officers, the chief executive, other staff and agents in clear delegated authorities, and should monitor their performance:

- **Clarity of roles** – the Board should define the roles and responsibilities of the chair and other honorary officers, in writing.
- **Effective delegation** – the Board should ensure that staff, volunteers and agents have sufficient delegated authority to discharge their duties. All delegated authorities must have clear limits relating to budgetary and other matters.
- **Terms of reference** – the Board should set clear terms of reference for sub-committees, standing groups, advisory panels etc.
- **Monitoring** – all delegated authorities must be subject to regular monitoring by the Board.

**(6) Board and trustee integrity** - the Board and individual trustees should act according to high ethical standards, and ensure that conflicts of interest are properly dealt with:

- **No personal benefit** – trustees must not benefit from their position beyond what is allowed by the law and is in the interest of the organisation.

- **Dealing with conflicts of interest** – trustees should identify and promptly declare any actual or potential conflicts of interest affecting them.
- **Probity** – there should be clear guidelines for receipt of gifts or hospitality by trustees.

**(7) Board openness** - the Board should be open, responsive and accountable to its users, beneficiaries, members, partners and others with an interest in its work:

- **Communication and consultation** – each organisation should identify those with a legitimate interest in its work (stakeholders), and ensure that there is a strategy for regular and effective communication with them about the organisation’s achievements and work.
- **Openness and accountability** – the Board should be open and accountable to stakeholders about its own work, and the governance of the organisation.
- **Stakeholder involvement** – the Board should encourage and enable the engagement of key stakeholders, such as users and beneficiaries, in the organisation’s planning and decision-making.

The main principles of the Code, and its detail, can be used to help trustees better understand their role, develop it, be confident 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 Governance Hub website and the Trustee Wales website, details of which can be found at the end of this sheet.

## **Trustee & Management Committee - National Occupational Standards**

The National Occupational Standards (NOS) were developed to complement and support the Code. While the Code is for Boards as a whole and the organisations they govern, the NOS are aimed at individual trustees. The Standards for Trustees were approved by the Qualifications and Curriculum Authority in January 2006.

National Occupational Standards 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 are broken down into 4 Units:

**(1) Safeguard and promote the values and mission of the voluntary or community organisation** - this unit is about the board of trustees setting out the voluntary or community 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 voluntary or community organisation** - this unit is about present and future strategic planning. It covers decisions about how the voluntary or community organisation's values and mission are expressed in aims and activities, and in the structures and processes needed to implement them.

**(3) Ensure the voluntary or community organisation operates in an effective, responsible and accountable manner** - this unit is about trustees working collectively to ensure their voluntary or community 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 voluntary or community organisation's board of trustees** - this unit is about helping the voluntary and community 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 voluntary or community 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 your organisation meets.

There are a considerable number of resources to support the NOS on the Governance Hub website, details of which can be found at the end of this sheet.

### ***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* (CC60), sets out what the Commission believes to be the attributes of a well-run charity to which every charity should aspire:

'The Hallmarks set out the standards that we believe an effective charity and its trustees will try to uphold and the principles that our regulatory framework exists to support. Each of the six Hallmarks describes an overarching principle... Together they set out a framework for effectiveness that charities can work towards.' (p.2)

The 6 Hallmarks are:

**(1) Focus on impact and outcomes** - an effective charity considers the impact that it wants to have and actually has on the people who benefit from it, is clear about its objects, vision, mission and values, and how it will achieve them.

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

**(3) Sound governance** - an effective charity is run by a clearly identifiable trustee body that has the right balance of skills and experience to run the charity effectively, acts in the best interests of the charity and its beneficiaries, understands its responsibilities and has systems in place to exercise them effectively.

**(4) Maximises potential** - an effective charity manages and uses its resources so as to optimise its potential.

**(5) Accountable and transparent** - an effective charity is accountable to the public and other stakeholders in a way that is transparent and understandable.

**(6) Flexible** - an effective charity is flexible enough to influence and adapt to changes in the environment in which it works in order to meet the changing needs of those who use its services.

## **Fit to govern: a ten-point health check**

This very useful 10-point health check 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 it was set up to tackle.

- 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.
- The Board has access to appropriate legal and professional advice.

#### **(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.

## Further information

### Governance Hub

*Good governance – a code for the voluntary and community sector, and, Trustee & Management Committee - National Occupational Standards*

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

### Charity Commission for England and Wales

*CC60 Hallmarks of an Effective Charity*

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

### Trustee Wales

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

### National Council for Voluntary Organisations

*Fit to govern: a ten-point health check*

[www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk)

### The Institute of Chartered Company Secretaries and Administrators

*Model Code of Conduct for Charity Trustees*

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

## 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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