

THE
LORD
MAYOR'S
CHARITY
LEADERSHIP
PROGRAMME
2014



The Board Charter *for* Charities Focused on Impact

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PREFACE

Preface by the Lord Mayor's Consort 2013/2014

I am supporting my wife, Fiona Woolf CBE, in my role as the Lord Mayor's Consort by providing a leadership programme within the City of London to increase the number and effectiveness of charity Chairs. The Lord Mayor's Charity Leadership Programme is supported by three very active and engaged main sponsors: the Centre for Charity Effectiveness at Cass Business School, Mazars and Macquarie Group Foundation. I would also like to recognise the support of the Association of Chairs and Coutts.

The Lord Mayor's Charity Leadership Programme

The aim of the Leadership Programme is to support those who are currently Chairs of charities or who are interested in taking on the role, especially those who work in the City of London and bring valuable skills to charity.

By way of context, Sam Younger, who retired recently as Chief Executive of the Charity Commission, made some interesting points in his valedictory speech on 30 May 2014. He said 'One of the great strengths of our society is the charitable instincts of its people. People identify a new need or a new way of addressing an existing need and they use the vehicle of charity to do something about it'.

Sam Younger then added a cautionary note 'The Commission's experience is that many people set up a new charity without making sure they have identified an unaddressed need or found an innovative solution; without making an honest effort to establish whether another charity is already doing similar work. The result is duplication, inefficiency and, sadly, too many charities that are not managed well enough. As charities compete for resources and face ever greater scrutiny, I think we should be bolder in saying; not all of the charities the Commission registers end up making an impact.'

The role of the Chair and this Board Charter *for* Charities Focused on Impact

This Board Charter recognises the special role of the Chair, with the other trustees, in ensuring the well-being of the charity and its long-term development. The Chair has the primary relationship with the Chief Executive. The Chair also has a key role in ensuring that the issues raised by Sam Younger are addressed by their charity.

I commend this Board Charter *for* Charities Focused on Impact as a key element of the legacy materials which are being produced as part of the Leadership Programme to capture current thinking and learning for the mutual benefit of business, charity and wider society.

Nicholas Woolf, the Lord Mayor's Consort 2013/2014

FOREWORD

THE BOARD CHARTER *FOR* CHARITIES FOCUSED ON IMPACT



Foreword by The Lord Mayor of the City of London

A world of change

We are running a forward-looking programme during my year as Lord Mayor focusing on issues that lead to the creation of long-term sustainability in charity, business and wider society. The backdrop against which this thinking is taking place – the 'new normal' as I have referred to it – is of a continuously growing global population, living mainly in cities, making huge new demands on power, water and finance, with new centres of economic and political power emerging. All this happening in times of resource constraints and uncertainties related to climate change.

This dynamic environment provides both huge challenges and opportunities for charity and business leaders. Those who succeed will be the men and women – and we need far more women in leadership roles – who set the right 'tone at the top' taking a long-term view and recognising that their charities and businesses are fully a part of society and not apart from it.

Welcome focus on innovation, diversity and inclusion

This Board Charter *for* Charities Focused on Impact will, I believe, help charity boards to navigate the difficult waters in which they have to sail and I therefore warmly welcome it. I am particularly pleased that it places strong emphasis on the importance of innovation. For centuries, London has been a major centre for charity. A great many Londoners volunteer, serve as charity chairs, treasurers and trustees and bring valuable transferable business skills to charities. Charities are enriched by the diversity of the city. Some of the largest and most successful charities are in London, working collaboratively with other charities across the country.

The City of London itself has a long tradition of charity and wider philanthropy, including the work of the Livery Companies and the endowed charities. This Board Charter also rightly highlights the importance of charities promoting diversity and inclusion in the recruitment and development of their people. This is morally right and also essential if charities are to have full access to the talents they need to create value in society, now and in the future.

Building better charities, businesses and a better society

To enable the Board Charter *for* Charities Focused on Impact to become a living guide to decision-making, I would urge boards and their chairs to use it in their boardrooms to consider how they can enhance their organisations. Wherever a board is on its journey to long-term sustainable performance, I believe this Board Charter will help it to identify some areas for further attention.

By working together, we can build better charities, better businesses and a better society.

A handwritten signature in blue ink that reads "Fiona Woolf". The signature is written in a cursive, flowing style.

Rt Hon Fiona Woolf CBE

OVERVIEW OF THE CHARITY SECTOR

High levels of public trust and confidence in charities

The Charity Commission published Ipsos MORI's fifth research report into public trust and confidence in charities in June 2014¹. This latest research builds on reports published in 2005, 2008, 2010 and 2012, so the dataset covers nearly a decade. The most recent report confirms that public trust and confidence in charities remains high at 6.7 out of 10 and has not varied significantly in recent years. This indicates that public trust and confidence in charities is resilient. It is based in part on the public knowing how charities spend their money and the difference that charities make to the lives of the people with whom they work. This Board Charter helps charities to sustain the public's trust and confidence in their work.

Charity trustees work to ensure that their charity is economical in its use of resources, efficient in applying those resources in its work and effective in its work with beneficiaries. The trustees report to their stakeholders each year through their Annual Report and accounts. The work which a charity delivers is its outputs, its achievements are its outcomes and its impact is the difference which it makes to the lives of its beneficiaries and wider society. Typically, impact will be viewed over a period of several years, rather than annually, and may involve several charities working together.

The Ipsos MORI research in 2014 found that almost all people (96%) agree that charities play an essential, very important or fairly important role in society. More worryingly, the same research found that fewer people trust charities to work independently of the interests of their funders: 68% did so in 2010, 63% in 2012 and only 62% in 2014. Independence from funders is a key element of effective stewardship.

The Ipsos MORI research also found that the public's appetite for accountability is undiminished: 94% of people agree that it is crucial for charities to demonstrate how they benefit the public. The charitable purpose may be broad, for instance to relieve and prevent poverty, or it may be more specific, for instance, to relieve and prevent poverty in a specified country or city. The right to set up a charity is very important and the law in the United Kingdom generally makes the process of setting up a charity as straightforward as possible. There are also related responsibilities, for instance to find out whether there is not an existing charity carrying on the work already, whether a new charitable need has been identified or a new solution to an existing charitable need identified.

The statistics of the sector

The annual income of the sector is £64 billion², of which £20 billion is from donations and legacies. Fees for charitable services (mainly from public bodies) amount to £33 billion and from trading to raise funds is £6 billion. The annual expenditure is £62 billion, with the greater part, £54 billion, spent on undertaking charitable work.

The assets of the sector are £213 billion, of which £106 billion are held as investments and £67 billion from used for charitable work. The liabilities are £40 billion, including pension fund deficits of £4 billion. There are 950,000 trustees and 900,000 employees, together with 3.3 million volunteers.

1 <http://www.charitycommission.gov.uk/about-the-commission/our-research/research-reports/public-trust-and-confidence-in-charities-2014-analysis/>

2 <https://www.gov.uk/government/publications/charity-sector-facts-and-figures/charities-by-income-last-12-months#september-2014>

OVERVIEW OF THE CHARITY SECTOR

A key difference between the business and charity sectors is that businesses nearly always contract directly with suppliers and customers. In contrast, charities commonly receive grants and donations and make grants to beneficiaries though charities do also enter into contracts with public bodies to provide services to beneficiaries. These services are commonly provided without charge, for instance care in a hospice or help from a Citizen's Advice Bureau.

Charities produce their Annual Reports and accounts in accordance with the Charity SORP (Statement of Recommended Practice – Accounting and Reporting by Charities) which was re-issued in July 2014³. The focus of the SORP is stewardship of charity resources and accountability to stakeholders rather than the themes of this Board Charter, the impact of charity and its long-term sustainability.

Innovation – social impact bonds

A recent innovation for charity is social impact bonds. Typically, a group of individuals or a social impact fund invest in a bond issued by a charity or a consortium of charities and seek a certain set of outputs and outcomes for a programme of work commissioned by a public body. If these outputs and outcomes are achieved, the investors receive an agreed financial return, paid for by a public body. If the outputs and outcomes are not achieved, the investors lose their money, hence the description of the bonds as 'payments by results'.

The unique characteristics of charities in civil society

A charity in the United Kingdom is unique in that it is the only organisational form which, in law, is exclusively charitable and for the benefit of the public. This differentiates charities from other worthwhile forms of organisation, such as co-operatives, mutual societies, employee-owned businesses and social impact businesses. Charities are heavily regulated and enjoy extensive tax benefits.

The role of this Board Charter

Charity trustees are required under charity law to act with care and prudence for the benefit of the public in the course of their work. The trustees must produce their Annual Reports and accounts in accordance with the Charity SORP under charity regulation. There is also a Good Governance Code for charities and other voluntary and community sector organisations, which is summarised in the Appendix to this Charter.

This Board Charter *for* Charities Focused on Impact goes further than charity law and regulation and further than the Good Governance Code to help charities to maximise the positive impact they have on society and to be sustainable over the long term.

3 http://www.charitysorps.org/media/619101/frs102_complete.pdf

INTRODUCTION

The contribution of charities to society

As the overview section indicates, charities make an enormous contribution to society in the United Kingdom. They help to create a more caring, cohesive and sustainable society through the work of their employees and volunteers whether it be in the form of helping those in need, undertaking other charitable activities or the undertaking of trading activities in support of their charitable purpose. Moreover, it is not only the lives of its beneficiaries that are enriched through the work of a charity, often so too are those of its volunteers, employees and donors through their involvement in supporting a cause to which they are strongly committed.

Succeeding in a changing world

Charities, business and the public sector are operating in an increasingly complex and inter-connected world and each sector can learn from the others as well as from within their own grouping. The largest charities, in particular, carry out a significant amount of public work under contract and many are also forging multi-dimensional links with the business community, for example when businesses make a donation to a charity, encourage their employees to act as volunteers for it or make pro bono contributions of expertise to assist in its management.

As for businesses, the success of most charities today primarily rests on their people, their relationships and their reputation all of which are intertwined. The talents and motivation of their volunteers and employees, the loyalty of their funders and the perceived extent and quality of their contribution to society all have a vital role to play in their success and thus need to be carefully nurtured and continually developed.

In recent years following the financial crisis, many charities have faced the challenge both of a greater need for their services and less public funding to support them and funding limitations look set to continue. These changes are coupled with structural ones such as those arising from a population that is generally living longer.

The role of the Board Charter *for* Charities Focused on Impact

The Board Charter *for* Charities Focused on Impact is based on applying the polarities model to boards¹ which are committed to working with their beneficiaries and other stakeholders to maximise the value they create for society.

The board polarities approach recognises that boards have to balance potentially conflicting objectives and priorities in order to keep them in equilibrium. There will sometimes be difficult decisions to be made with no easy answers. The Board Charter is designed to help boards identify the challenging issues they are likely to face and to encourage them to be open in discussing how they are addressing them.

An aide to effective stewardship

Trustee boards committed to a 'focus on impact' approach and thus to effective stewardship will be transparent about the purpose of the charity, its approach and views on relevant issues, its financial performance, its impact and its future plans.

¹ Board Polarities for Charities: Balancing the critical factors which enhance performance and potential (www.mazars.co.uk)

INTRODUCTION

The role of the trustee board in a charity, and the leadership of the Chair, is very important in promoting effective stewardship, in some ways more than, for example, in public interest entities such as listed companies given that investors in and customers of a commercial company will often be in a position to exert stronger influence than donors or beneficiaries of a charity.

The key elements of the Board Charter *for* Charities Focused on Impact

The Board Charter *for* Charities Focused on Impact comprises a range of intertwined elements effective stewardship:

1. Recognition of the importance of seeking to maximise the long-term impact of the charity on society
2. An emphasis on 'tone at the top'
3. A compelling and durable charitable purpose
4. A strategy, aligned with the purpose and whose implementation is effectively monitored
5. Deeply embedded values which are at the heart of the charity and its decision-making
6. The fostering of innovation and collaboration in a manner that has full regard to enhancing the charity's impact on society
7. A commitment to effective engagement with, and fair treatment of, its stakeholders

These elements are discussed in more detail in the sections which follow. The reference to the board generally refers to the trustee board and senior executive team taken together.

THE BOARD CHARTER *FOR* CHARITIES FOCUSED ON IMPACT

BOARD LEADERSHIP

Board commitment to the 'focused on impact' approach

The board is committed to the 'focused on impact' approach and thereby to the long-term sustainable success of the charity.

The right 'tone at the top'

The board is committed to setting the right 'tone at the top' by acting ethically in a manner aligned with the purpose and values of the charity. Individual board members are committed to acting as role models for the charity's approach.

Suitable board structures and expertise

The board has the necessary skills, expertise and structures in place both to implement the 'focused on impact' approach successfully and to exercise oversight over its implementation.

VISION

A compelling and durable charitable purpose

The charity has a compelling and durable charitable purpose for the benefit of the public. This has been agreed after consultation with stakeholders and is widely disseminated to them.

Long-term strategy flowing from the charitable purpose

The board has a well developed strategy extending out to the long-term which embraces the 'focused on impact' approach and considers possible future environments in which the charity will be operating including likely changes in beneficiaries' needs and changes affecting other stakeholders.

VALUE DRIVERS & STAKEHOLDER ENGAGEMENT

Developing a supportive organisational culture

The board has clearly articulated the values of the charity after full consultation with its beneficiaries and other stakeholders.

The values are at the heart of the charity and are fully taken into account in decision-making throughout the organisation including at board level. The board seeks to embed the values throughout the charity through engagement with its employees, volunteers and other stakeholders including at employee and volunteer induction and development programmes. For employees, the values are also an integral part of the HR systems including those relating to performance, remuneration, promotion and disciplinary matters.

The board actively assesses the extent to which the charitable purpose is being fulfilled and the values applied in the organisation, identifies areas for development and takes follow-up action.

Engagement with, and fair treatment of, stakeholders

The board has identified its key stakeholders and adopts an appropriate means of segmenting them into relevant groups, eg possibly consulting employees based on the country they are working in if an international charity.

The board places strong emphasis on engaging with its beneficiaries and other stakeholders and treating them fairly. It is aware of the opinions of stakeholders through surveys, reports and/or meetings, as appropriate, and regularly communicates

THE BOARD CHARTER *FOR CHARITIES FOCUSED ON IMPACT*

with them on matters of importance to them in accordance with a relevant framework such as the Charity SORP and the Good Governance Code.

The board has developed targets and initiatives, covering all aspects of its work, in relation to diversity, inclusion and related issues and it monitors progress being made towards achieving its set goals.

Fair remuneration aligned with purpose and values

The board ensures that the remuneration and promotion of employees has full regard to their contribution to helping the charity fulfil its charitable purpose.

The board seeks to treat all employees fairly. In doing so it has regard to the appropriate relationship between the remuneration of the executive team and other employees and to the remuneration of lower paid employees. It is committed to paying at least the National Living Wage or London Living Wage, as appropriate, to all employees and contract staff working for it.

Commitment to a sound financial approach

In order that it can maximise its long-term impact on society, the board is committed to adopting a sound financial strategy that maintains its viability with sufficient reserves to cover contingencies whilst avoiding an undue build up of reserves.

Focus on innovation of benefit to society

The board ensures the charity has a strong innovation capability, including through collaborative working, and that it seeks to be innovative in all aspects of its work. This includes striving through innovative approaches to have a significant positive impact on the benefits it creates for society especially through helping to address major challenges confronting it.

In promoting innovation, the board both encourages ongoing incremental improvements and is sensitive to opportunities for transformational change.

Effective risk management system

The board ensures that the risk management system takes full account of risks that the charity will impose negative impacts on society and of any harm it is currently causing. It seeks to identify how the risks may be mitigated and any harm reduced or eliminated. In making its assessment, the board has considered the use of an appropriate framework such as the UN Global Compact.

Attention to the importance of the 'licence to operate'

As part of its responsibilities for risk management, the board has full regard to reputational and risk and to the importance of the 'licence to operate' to the future success of the charity.

INNOVATION & RISK MANAGEMENT

THE BOARD CHARTER *FOR* CHARITIES FOCUSED ON IMPACT

BOARD PERFORMANCE

High quality stakeholder and society-orientated information used in decision-making

The board ensures it has sufficient high quality, relevant and reliable information on stakeholder and wider societal matters. In looking at societal issues, it considers the actual and potential positive and negative impacts it might have on society, ie including an awareness of the possibility of opportunities to make additional positive contributions to society.

The charity is open to working co-operatively with other organisations to help maximise its impact on society.

Clear focus on performance with respect to beneficiaries, other stakeholders and wider society

The board has developed non-financial and financial KPIs and a risk management system that flow directly from the strategy. In reviewing the performance of the charity, the board places emphasis on matters of importance to its beneficiaries, other stakeholders and wider society, identifies weaknesses or failures in performance and other opportunities for improvement and takes appropriate follow-up action.

Fostering resilience to crisis situations

The board seeks to foster a high level of public trust and resilience in the charity. The board works hard to prevent crises from arising which could have a negative impact on stakeholders or wider society and to enable it to deal effectively with any that do occur.

The board has developed and tested contingency plans for dealing with a major crisis or crises which could arise. It has carefully considered how to mitigate any negative impact on stakeholders and wider society that may result.

EXPLANATION OF PRINCIPLES UNDERLYING THE BOARD CHARTER

The challenges in assessing the charity's long-term impact on society

Assessing the charity's long-term impact on society requires careful consideration and qualitative as well as quantitative judgements. A key source of benefit is likely to be the benefits enjoyed by beneficiaries and regard should also be had to the associated impact on wider society as well as gains to other stakeholder groups eg volunteers enjoying a greater degree of wellbeing by virtue of contributing to a cause about which they feel passionate. In addition, one needs, for example, to consider the number of jobs created or sustained by the charity's work which may be in the charity itself or in a trading subsidiary which may have a positive environmental effect through promoting recycling. There may, however, also be some negative impacts, for example, around the areas of energy, waste, travel and paper usage in relation to the charity's activities to be taken into account.

Determining the charity's overall impact on society not only poses challenges of measurement but different stakeholders may have different views on the nature of benefits created by the charity. Where there are varying views, the board should encourage open discussion and be transparent in setting out the view it has taken.

In essence, the Board Charter *for* Charities Focused on Impact promotes a thinking holistic approach to charity leadership.

Board leadership vital to maximising charities' long-term impact on society

The 'tone at the top' is critical to the performance of any charity just as it is for all organisations whether in the business, public or voluntary and community sectors. If the board is serious about its commitment to maximising its impact over the long term on society, it will need to move beyond its comfort zone. This will require the wholehearted support of both the trustee board and the senior executive team and, within those groups, of the charity's Chair and Chief Executive in particular. All board members will, however, need to act as role models in support of its chosen approach.

The 'tone at the top' embraces thinking, decisions and behaviour and needs to be honest, consistent and transparent, in short authentic.

Moving the organisation towards a long-term societal approach will not be achieved overnight and will require the board both to demonstrate the actions it has taken in pursuit of this goal and its determination to tackle outstanding issues.

For the board to achieve its full potential it needs the right people in place at both executive and non-executive levels and then for the trustee board and executive teams to be effective which includes the respective teams working well both in their own roles and with each other. It will therefore be important for them periodically to consider any gaps in skills, experience or attributes and how best they can be filled which may be through making new board appointments at appropriate times but could also be through other means such as undertaking development programmes or the appointment of board advisers or advisory groups.

EXPLANATION OF PRINCIPLES UNDERLYING THE BOARD CHARTER

The benefits of a compelling and durable purpose

A charity with a focus on the long-term benefits it can create for society provides a unifying platform for its stakeholders leading to stronger relationships between the charity and its various stakeholder groups and a greater shared determination to fulfil the charity's purpose.

A compelling and durable purpose setting out its overall mission clearly is also likely to make it easier for the charity to raise general funds in support of its core costs as well as funds for special projects.

Long-term strategy is critical to charities focused on impact

The long-term strategy will help the charity consider how it will cope with a changing environment both for its services and as regards the funding environment in which it is likely to be operating. The further out in terms of time that the strategy reaches the more inherently uncertain forecasts will be, but the thinking of alternative futures through the use of techniques such as scenario planning is likely to increase the agility of the charity and its ability to cope with change, even if it does not happen exactly as predicted.

Taking a long-term strategic view does not reduce the need to pay significant attention to strategy development and implementation in the near term, rather the two complement each other. The charity must make satisfactory ongoing progress if it is to have the opportunity to continue serving society for the foreseeable future.

The charity's values should be at the heart of everything it does

The charity expresses how it seeks to fulfil its charitable purpose in practice through its culture, values and strategy which must be central to the organisation and its decision-making. Moreover, it is essential that the values genuinely reflect the culture of the organisation and are not wholly aspirational in nature, albeit that there will always be work to be done on embedding them more fully within the organisation.

If the chosen values are to be seen, by employees, in particular, as being at the heart of the charity, they must be seen to be lived out at trustee board and senior management team levels and to play a pivotal role in key decisions especially those related to strategic choices and priorities, the care of beneficiaries, the selection of funders, the recruitment of trustee board members and the hiring and treatment of employees and volunteers.

The board should ensure it has a good understanding of how its values are being lived out in practice which may involve the use of surveys, stakeholder meetings or assessment of matters such as staff or volunteer turnover. It is also important that the board be aware of issues arising in staff exit interviews, and that these be conducted by a person independent of line management, and other concerns or complaints raised by employees, beneficiaries or their representatives. A culture of encouraging stakeholders to 'speak up' where they have genuine concerns should be fostered. Reports may also be available from independent regulators or inspectors.

EXPLANATION OF PRINCIPLES UNDERLYING THE BOARD CHARTER

Fair and considerate treatment of stakeholders will enhance impact on society

Fair and considerate treatment of stakeholders is crucial to their feelings of well-being in dealing with the charity and thus their motivation in working with it especially in the case of volunteers and employees.

For many charities, positive relations with its stakeholders are likely to lead to a virtuous circle in terms of societal impact a highly motivated staff and volunteer team is likely to provide better services to beneficiaries and, depending on the nature of the charity, benefits will flow across stakeholder groups such as friends and relatives of appreciative beneficiaries, who are likely to be keen to help with fundraising efforts. In addition, in some instances, former beneficiaries may become volunteers whilst suppliers of corporate services to the charity may encourage their employees to volunteer for it or raise funds for its work.

In looking at fair financial treatment there are a range of issues to be considered in relation to different groups of stakeholders.

In terms of remuneration, much attention focuses on the remuneration of the senior executive team and it is right that it should do so as it of interest to donors, employees and others associated with the charity and sends signals about the application of its values. There is also the possibility of reputation risk if it is, for example, seen to be out of line with that for other senior staff in the sector or to be more than what is considered to be 'fair' remuneration for the role in question.

Senior staff remuneration is, however, only one aspect of pay which is important to understanding the organisation's values in practice. Consideration also needs to be given to how lower paid employees and contract staff are treated and if some are below the National Living Wage or London Living Wage, as appropriate, to understand what steps are being taken to remedy the situation.

Meanwhile, where charities charge beneficiaries for their services, eg care homes, nursing homes, social housing or schools, factors that it would generally be appropriate to consider in looking at fair financial treatment would include:

- the reasonableness of the overall level of fees charged
- the fairness of any differentials between students, patients or residents, as appropriate
- the transparency and understandability of the fees charged
- the ease with which a client may move to an alternative provider.

EXPLANATION OF PRINCIPLES UNDERLYING THE BOARD CHARTER

Reporting to stakeholders is a key element of accountability

The board has a responsibility to its stakeholders on issues related to its impact on society and should report to its stakeholders in a fair and balanced way on these matters in the charity's annual report, on its website, in specialist reviews and through direct dialogue at meetings as appropriate.

The board should report:

- the opportunities and challenges it faces in fulfilling its charitable purpose and implementing its strategy
- the value created for beneficiaries and other stakeholders
- its positive and negative impacts on wider society
- progress towards increasing its positive net impact
- action taken to reduce negative impacts, the degree of success achieved and further action planned with targets, where appropriate.

With the above information, the stakeholders will be able to assess the board's commitment to the 'focused on impact' approach and its degree of success in realising it in practice.

A sound financial strategy to enable charity to focus on its purpose

A sound financial strategy is essential if the charity is to focus on fulfilling its purpose and not to be distracted by short-term financial imperatives which are likely both to be time-consuming for the trustee board and executive management and to run the risk of sources of revenue being sought which do not further the charity's purpose and may even lead to challenges to its fulfilment in some instances.

Innovation vital to addressing society's needs and remaining dynamic as an organisation

Innovation is vital to the lifeblood of any organisation and in its absence a charity will atrophy and become increasingly less efficient and effective, failing to respond adequately to changing circumstances.

A commitment to innovation should permeate all aspects of a charity's work whether it be delivering services in a new way, for example by making better use of technology; collaboration with other partners operating in the same sector to ensure better co-ordination of provision of services or through entering into partnerships with charities or other bodies in different sectors to provide clients with a range of necessary support covering a number of specialist fields. Innovation may also be in areas of communication with any group of stakeholders through making better use of modern media. Alternatively, it may lead to the more efficient provision of support services.

Efforts should be made both to promote continual incremental improvement and to seek transformational change especially when it will lead to the charity addressing key societal needs and/or the needs of its beneficiaries in a more holistic way. For example, treating the underlying causes of homelessness such as alcohol or drug abuse rather than simply the homelessness itself will lead to a more positive outcome for the client and significantly enhanced benefit for society.

EXPLANATION OF PRINCIPLES UNDERLYING THE BOARD CHARTER

Maintaining the charity's 'licence to operate'

For charities, maintaining their licence to operate is crucial if they are to continue to maintain the confidence of beneficiaries, raise funds successfully, secure the necessary time commitments from volunteers and be able to recruit high quality employees. A reputation won over many years can be wiped out in an instant if the charity is the subject of a scandal. Reputational damage can be swift, severe and long-lasting and thus time invested to prevent it occurring will be well spent.

Effective risk management with a focus on the risks flowing from the strategy is thus an important part of the board's mandate and needs to include consideration of how the charity would handle a crisis were it to occur. Some charities, especially those looking after vulnerable people, will, by their nature, need a very thorough approach to risk management if they are to protect their beneficiaries and the positive contribution they are making to society.

Getting the fundamentals right at the board can make a real difference in fulfilling the charity's purpose

The board will find it very valuable to pay attention to the fundamental features of good board governance, for instance in terms of asking for agendas that are well planned with sufficient time set aside for strategic issues; ensuring high quality papers are presented to the board with proper focus on non-financial as well as financial KPIs linking back to the strategy and purpose; and by helping the Chair to make good use of time at meetings. The board should be committed to continuous improvement in the quality of its deliberations as much as to that in the rest of the charity's work and should regularly review its effectiveness, periodically commissioning an external board review.

Contributing to making the 'focused on impact' approach mainstream

Boards which are adopting the 'focused on impact' approach should engage with fellow adoptees in the charity and business sectors to learn from their mutual experiences and to refine the model from an understanding of applying it in practice. Charity boards are also encouraged to play their full part in the charity sector and more widely in advocating the benefits of their chosen approach and making it the mainstream way of participating in the society of which they are an integral part.

QUESTIONS FOR THE BOARD

BOARD LEADERSHIP

1. How does the board demonstrate its commitment to focusing on maximising the charity's long-term impact on society?
2. How will the board address the key challenges it faces when implementing this approach?
3. How could board members develop further in acting as role models?
4. Which additional skills, experience or attributes amongst board members would best help the board achieve its goals and how will they be brought into the boardroom?

VISION

5. What more could be done to ensure the charity's purpose is compelling and durable and widely disseminated to stakeholders?
6. Which key decisions will best enhance the board's long-term strategy or its implementation?

VALUE DRIVERS & STAKEHOLDER ENGAGEMENT

7. How could the board improve its understanding of how the charity's values are being applied?
8. How could the board better embed the charity's values throughout the organisation?
9. How could the charity better meet the current and future needs of its beneficiaries?
10. Are there additional or different beneficiaries it should seek to serve and how can it reach them?
11. How could the charity strengthen the motivation of, and engagement with, its employees and, if applicable, volunteers?
12. How could the charity build on existing donor relationships and develop new ones?
13. What other sources of funding could be developed in line with the charity's purpose and values?
14. To what extent is the remuneration of senior executives of the charity aligned with the charity's purpose and values?
15. What are the board's plans, if needed, for ensuring all its team members, including contract staff, at least earn the National Living Wage or London Living Wage, as appropriate?

INNOVATION & RISK MANAGEMENT

16. How viable is the financial strategy in the near and longer term and are there ways in which it could be strengthened?
17. How could the charity's innovation capability, including its ability to work with others, be developed so as to maximise its long-term impact on society?
18. How could the charity's risk management system be improved as regards better considering risks to maximising its possible impact on society (including not missing significant opportunities)?

BOARD PERFORMANCE

19. How could board performance best be strengthened in terms of committee structure, board agendas, agenda papers and chairing of meetings?
20. How effective are the KPIs at capturing the quality of stakeholder relationships and, linked to this, the charity's long-term impact on society?

APPENDIX

GOOD GOVERNANCE: A CODE FOR THE VOLUNTARY AND COMMUNITY SECTOR

The following is an extract from Good Governance: A Code for the Voluntary and Community Sector www.governancecode.org

Introduction by Lindsay Driscoll, Chair of the Governance Code Steering Group

Good governance is essential for the success of any organisation and is now more important than ever. Board members play a vital role in serving their causes and communities. They bring passion and commitment as well as skills and experience to the organisation they lead.

Boards set the long-term vision and protect the reputation and values of their organisations. To make a difference a board needs to have proper procedures and policies in place but it also needs to work well as a team and have good relationships within the organisation. 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.

The principles

The principles set out good practice but these are closely linked with the responsibilities of charity trustees and other legal requirements that may be imposed on board members. Under each principle we have highlighted the areas of law which we consider to be the most relevant.

The six high level principles are designed to be universal and applicable to all voluntary and community organisations. It is the practice and procedures which will vary according to the type and size of the organisation. To support the principles we have included good governance characteristics and set out why we consider the principles to be essential for good governance.

Underlying each principle is the additional principle of equality – that of ensuring equality, diversity and equality of treatment for all sections of the community. We believe that this is a fundamental and essential element of all six principles.

THE PRINCIPLES – A SUMMARY

Principle 1

An effective board will provide good governance and leadership by understanding their role.

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.

Principle 2

An effective board will provide good governance and leadership by ensuring 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.

Principle 3

An effective board will provide good governance and leadership by 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.

THE PRINCIPLES – A SUMMARY (continued)

Principle 4

An effective board will provide good governance and leadership by 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.

Principle 5

An effective board will provide good governance and leadership by behaving with 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.

Principle 6

An effective board will provide good governance and leadership 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.

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The Board Charter *for* Charities Focused on Impact is a companion publication to the Board Charter which was developed in association with Tomorrow's Company.

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