

# Decoding the Charity Governance Code



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Charity  
Governance  
Code



# Decoding the Charity Governance Code

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# Foreword

Trust is a straightforward concept.  
Deliver against your promises and trust will follow.

In a world in which things are constantly evolving, where things are often not straightforward, trust is not a new phenomenon, but it remains critical. Trust is something that has been forfeited by many in the charities world. Where would you put your own time, effort and loyalty? The answer is simple, in something you trust.

The charities sector is weathering tough times following several high-profile scandals in recent years. These scandals have led to charities, both well-run or otherwise, having to deal with an increased level of doubt from the public about where donations are being spent, in an environment where they are under more regulatory and media scrutiny than ever before. A recent report published by the Charity Commission<sup>1</sup> has uncovered the full extent of this depletion of trust, as the public now has less trust in charities than they do with the average man or woman on the street. While donation levels are holding steady, if the public's perception of the charity sector continues to deteriorate, then ultimately it may well result in hitting charities' bottom lines, with knock-on repercussions for themselves and their beneficiaries.

Key to being a trustworthy organisation is having and demonstrating effective Governance. But in a tough regulatory environment where new legislative requirements are a frequent occurrence, underperforming Governance is not a rarity.

Governance underperformance is rife in the wider not-for-profit world, and those that are working hard to improve this are drowning in a sea of issues and legislation that is struggling to keep up with sector developments. The ramifications of such underperformance are severe in the charities space, a landscape that heavily relies on public generosity, interest and support.

This is where the Charity Governance Code comes in. It demands accountability and provides a crucial reference point for charities to follow in order to keep themselves well-managed and futureproofed. But is it effective? Or is it just another well-meaning drop in an ever-expanding pool?

<sup>1</sup><https://www.gov.uk/government/publications/trust-in-charities-2018>, published 11th July 2018



# Decoding the Governance Code

The Charity Governance Code is not a legal or regulatory requirement, but it does set principles and recommended practice for good Governance and is deliberately aspirational. The Commission endorses the Code but has no power to enforce compliance.

The Code was developed by a steering group and was most recently updated in July 2017, with the help of over 200 charities, individuals and related organisations.

Compliance with the law is an integral part of good Governance. The Code does not attempt to set out all the legal requirements that apply to charities and charity trustees. The seven Code principles assume that charity trustees are already aware of basic legal and regulatory responsibilities.

Charities are encouraged to publish a brief statement outlining their application of the Code in their annual reports based upon the "apply or explain" approach. This is not unique to this Code, legislation such as the Modern Slavery Act applies an identical approach.

Charities are not obliged to outline all aspects of recommended practice in their annual report, in fact the Code only states four explicit instances where compliance should be evidenced in this way. However, charities should strive to demonstrate compliance with the Code's principles, through other publicly available mediums such as on their website or newsletters.





## Highlights

- Average Governance ratings across all seven principles for charities which stated their alignment to the Code was nearly 10 per cent higher than those that did not acknowledge its adoption.
- Of the 85 charities analysed, approximately 44 per cent acknowledged the Code within their annual reports.
- 31 per cent of charities, by our scoring methodology, demonstrated excellent Governance.
- The amount of time allotted to file annual reports was not found to be an influential factor in Code adoption, with a one per cent difference in average scores achieved by charities who filed in December 2017 vs March 2018.
- Charities primarily engaged in activities pertaining to medical, health or sickness were the top-scoring group, scoring over 25 per cent higher than the lowest-performing category.

# Key findings

To understand what impact, if any, the Governance Code has had on the sector, RSM analysed demonstrated behaviours and evidence of compliance in 85 charities of various sizes and activity areas.

In partnership with the Governance Code steering group committee, we have outlined how the Code is being applied and how to look out for some of the common failings. We also looked to identify emerging issues and challenges faced by charities.

## Research methodology

Our scoring system analysed charities compliance with the code based on the outlined criteria and weighting. Evidencing adoption of the Code and stating compliance in specific areas in annual reports and on the charity's own website were the basis of our scoring system. We then sought evidence for each principle contained in the Code being complied with, ranking compliance on a five-point scale for each principle, which is highlighted in the seven pillars of success section of this report.

CONTENT	TOTAL AVAILABLE POINTS	WEIGHTING
Code adoption	9	45
Core compliance	4	20
Seven principles	35	35
<b>TOTAL</b>	<b>48</b>	<b>100</b>

This report is based on research from charities grouped into the following seven activity areas and income tiers:

AREA OF ACTIVITY	Annual income			TOTAL
	SMALLER £5m–9.9m	MEDIUM £10m–19.9m	LARGE £20m+	
Animals and the environment	1	2	9	12
Education and training	3	3	6	12
General charitable purposes	2	3	7	12
Housing and financial support	4	2	6	12
Medical, health and sickness	2	1	10	13
Overseas aid and famine relief	0	2	10	12
Sporting and the arts	3	2	7	12
<b>TOTAL</b>	<b>15</b>	<b>15</b>	<b>55</b>	<b>85</b>



## Scoring

In analysing our research, we must remember that the Governance Code is, in effect, a best practice guide to effective Governance. Therefore, the likelihood of a charity, often cash and resource poor, having perfectly implemented these 'rules', is realistically low.

Our findings corroborate this. That said and given that our research focused on relatively larger (see next section) charities, there is evidently still more to do to support charities to become aware of and to encourage use of the Code. Overall scores should however be viewed within the context of the aspirational nature of the Code, as the guidelines are purposefully a standard to strive to achieve.

When considering application of the Code, results showed that most who scored moderately to well (a score of over 60 per cent) across the seven principles were the same organisations that explicitly stated their alignment to the Code. Perhaps unsurprisingly when considering the adoption rate of 44 per cent for the first year following the new Code edition, a 'wait and see' approach has been adopted by some charities as they look to see what impact of the Code is on improving Governance standards. As evidenced in our research, there has been a marked improvement in the robustness of their Governance framework, which should encourage more charities to adopt the Code.

Of the 85 charities analysed, approximately 44 per cent acknowledged the Code within their reports. Two charities in our sample followed a different Governance Code, which leaves over half of charities silent on what, if any, Code of Governance they use to benchmark performance.

Average ratings across all seven principles for charities which stated their alignment to the Code were nearly 10 per cent higher than those that did not acknowledge its adoption.

### Other key findings:

- The average overall good Governance rating was 52 per cent, indicating organisations are applying the Code but have significant room for improvement.
- 22 organisations received scores of over 70 per cent. A quarter of all charities consistently demonstrated a strong application of good Governance across all seven principles.
- The highest scoring charity rated at an impressive 91 per cent. In stark comparison, the lowest rating was 17 per cent.

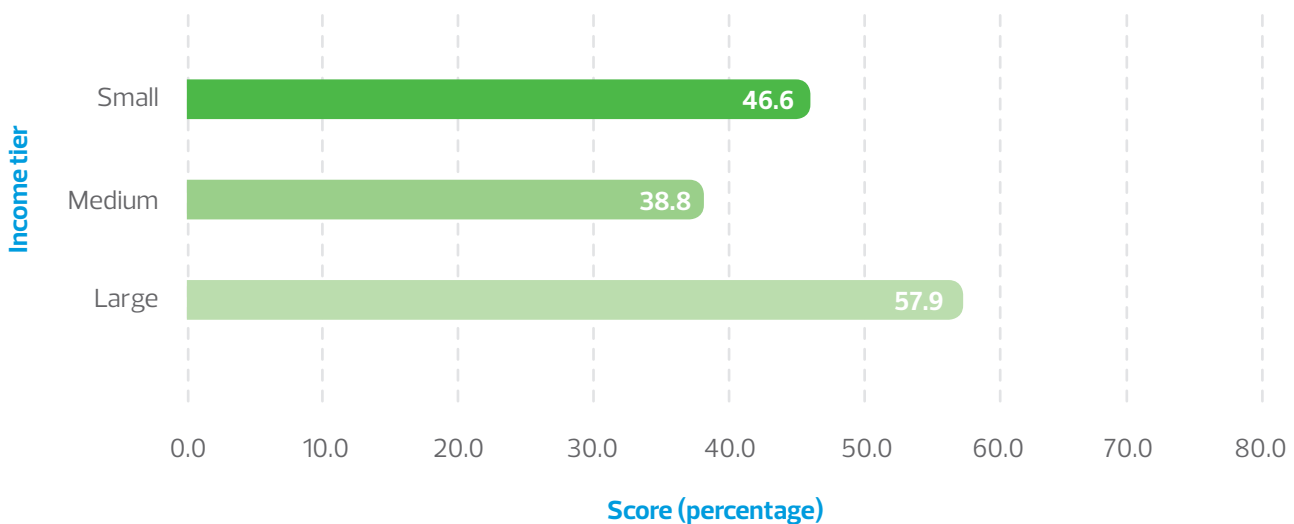
## Income tiers – sizing up the sector

Our research was focused on those charities with an income of £5m and over, as these organisations will have more resources and more scope to properly evidence compliance with each of the Code's principles, as well as being required to produce audited accounts. While charities with income under £5m make up the vast majority of the sector by number and should still strive to comply with the Code, it would be unrealistic to expect consistent compliance.

### For this research, we used the following classifications:

- Large = £20m+ income
- Medium = £10–£19.9m income
- Smaller = £5–£9.9m income

### Good Governance by income: average rating



#### Bigger is better

Larger charities were seen to be more able to demonstrate an overall adherence to recommended standards and demonstrated this most consistently.

Large charities scored 58 per cent on average, approximately 8 per cent higher than the overall average. This could suggest that resource plays a significant part in organisations' ability to demonstrate compliance.

#### Medium mediocrity

The medium-tier income charities (£10m to £19.9m) achieved an average score of 38.8 per cent, around 14 per cent lower than the overall average and interestingly the lowest achieving segment.

While there are many influencing factors as to why the middle tier is languishing behind in their compliance with the Code, it is likely that after the initial rush to upscale themselves, the board are so focused on delivering their objectives and building their USP that they take their eyes off the proverbial Governance ball.

#### Smaller is mightier

The average scored by smaller charities was 46.6 per cent. Half of small charities examined ranked within the top half of the full sample.

They are significantly bolstered by the ability to be agile without organisational barriers being present; however, this success should be celebrated as it's not easy being small in an increasingly competitive donor and fundraising space.

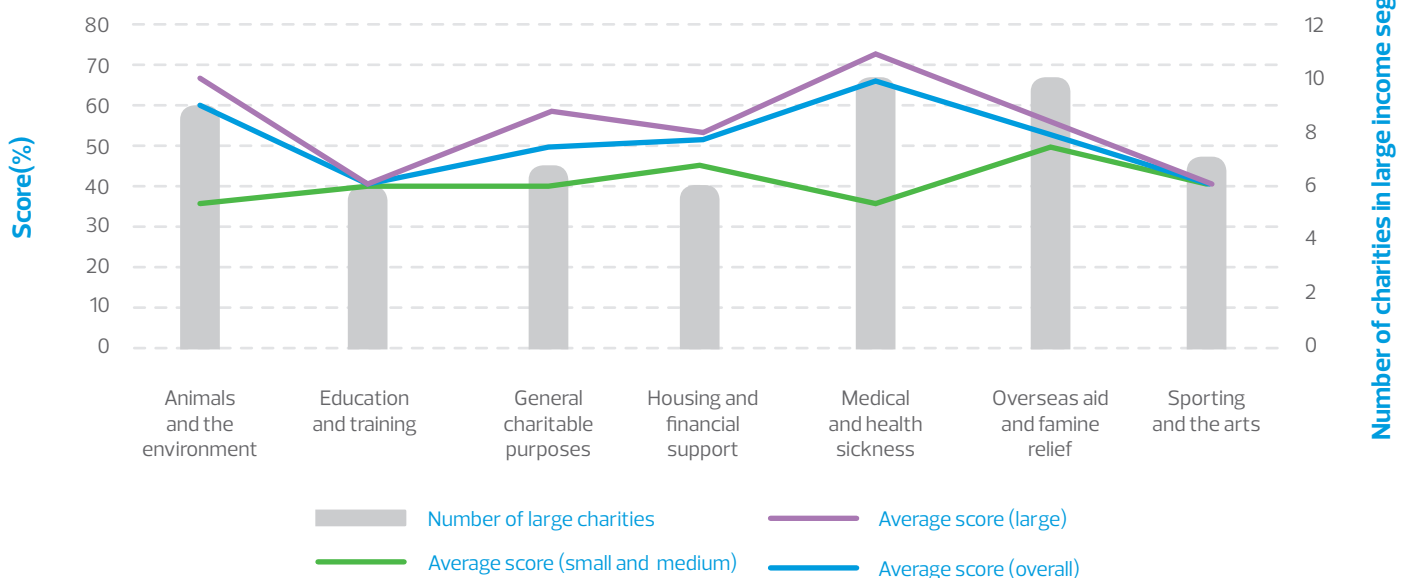
## Activity type

Medical, health and sickness charities were the top-scoring group with an average good Governance rating over 6 per cent higher than the second-rated group and over 25 per cent higher than the lowest-rated category. They also scored approximately 13 points above the median.

AREA OF ACTIVITY	AVERAGE SCORE (%)
Medical, health and sickness	65.5
Animals and the environment	59.0
Overseas aid and famine relief	54.9
Housing and financial support	52.7
General charitable purposes	50.4
Education and training	41.1
Sporting and the arts	39.7
<b>AVERAGE SCORE</b>	<b>52.1</b>

In the case of charities in the medical, health and sickness category, 10 of the largest charities of the total sample were included in this grouping.

Governance ratings by activity and income size



This is not the only explanation for the higher scores in the medical, health and sickness charity grouping. As these charities must strive for impeccable clinical Governance standards, the strong processes and procedures put in place in carrying out their activities then may permeate into their overall Governance standards. Furthermore, the average age of the charities active in this sector is older than the average of the other activity areas.

Over half of the medical, health and sickness charities we analysed were over 50 years old. With a longer established organisation having more time to embed and perfect key processes, along with building a larger sector profile, the age

of a charity must be considered when understanding the strength of a charity's Governance framework.

The overseas aid and famine relief category results suggest that income size does not always matter. This category contained 10 of the largest charities in the sample yet scored an average of 10 per cent lower than those in the medical, health and sickness category. This reemphasizes the fact that while larger charities are generally better able to demonstrate compliance with the Code, it is by no means something that can be taken for granted.

# Common failings

1

**30 per cent of annual reports failed to outline their board's review processes when it came to making specific executive appointments.**

If your charity can justify through detailing a specific and objective review process, why it is bringing in expensive members of executive or non-executive staff, as well as what value they bring to the organisation, then the risk of scrutiny by key stakeholders will reduce significantly.

2

**In 20 per cent of cases, at least one trustee exceeded the suggested nine-year term, with no explanation given.**

It is good practice to rotate the trustees of a board over a medium to long term basis, to provide fresh ideas and to avoid complacency in the role. If there is a compelling reason as to why certain trustees have exceeded the nine-year term, ensure the reason is recorded and is to the satisfaction of your key stakeholders.

3

**11 per cent of charities failed to address senior staff remuneration levels in their annual reports.**

The importance of this cannot be understated. The Code explicitly states that senior staff remuneration levels should be included in the annual report. This is one of only four instances where the Code directly recommends that something be included in annual reports, further highlighting how seriously trustees should take this disclosure.

4

**Charities operating a 'wait and see' approach should not be led into thinking that demand for good Governance is going to go away any time soon.**

It will and should continue to be on the agenda regardless of the next scandal, as Governance continues to be of interest in all other sectors. Charities should not make the mistake of believing that they exist in a bubble. The public will continue to expect them to be well-led, and in some cases, hold them to an even higher standard.

5

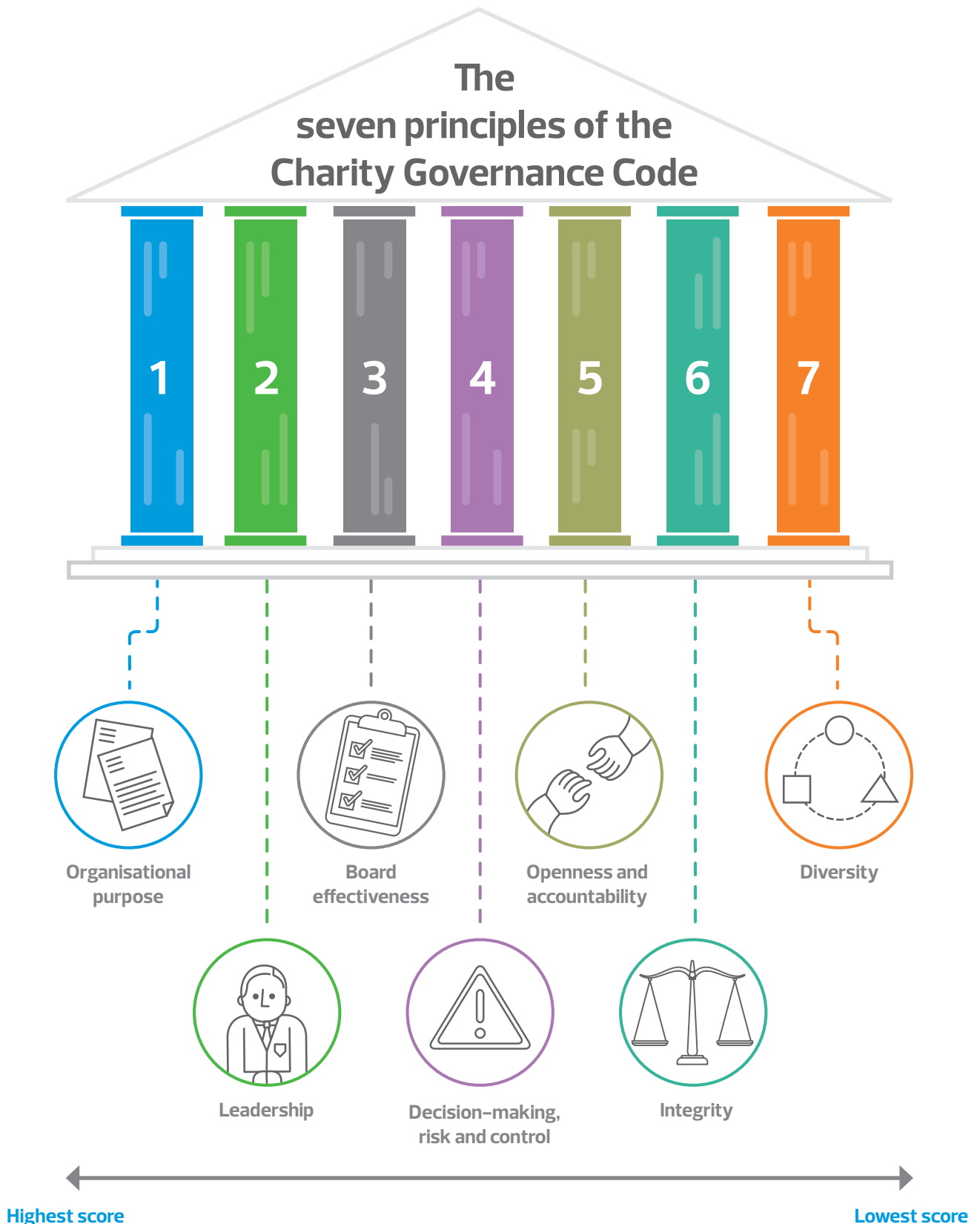
**Diversity statements only existed on 22 per cent of websites.**

As a minimum standard, charities should be publishing these statements to acknowledge this issue and the steps they are taking to improve diversity across all levels of their operations.



# Seven pillars of success

The seven principles below are the basis of the Governance Code. How can charities ensure that they are complying with each of the Code's seven equally important principles, and what are the benefits of doing so?





## 1. Organisational purpose

score of 72 per cent

### Best in class

The best example of a clearly defined organisational purpose is not a complex or innovative one. The charity published a straight-forward, yet detailed explanation of their public benefit. The topic was distinguished by a clear heading making it easy to locate. The projects undertaken by the charity in the past year were outlined in their various stages, with connections made to their impact and value. Considerations of relevant stakeholders were also referenced.

### Key considerations

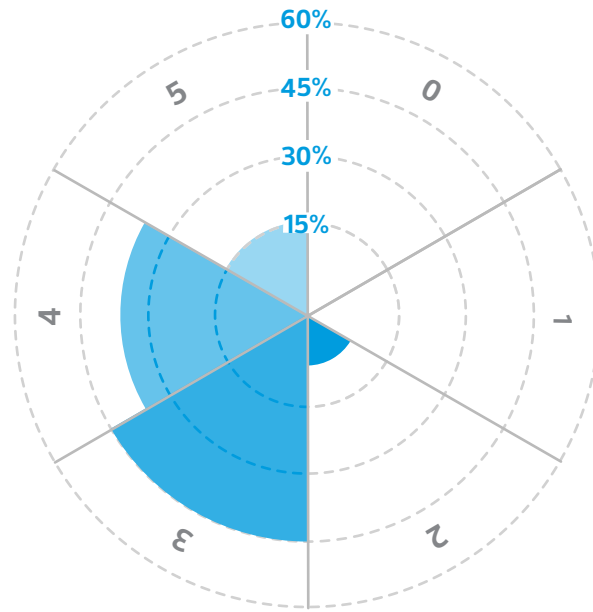
Each objective of the charity, as defined in their strategy, should contain explicit 'lead' and 'lag' indicators, with data collected at least once a year, preferably every six months, to track measurable progress on achieving objectives. The results should be shown on the website but should also be set out and discussed in the annual report. The benefit of this approach is that trustees will hold themselves accountable to these strategies, which increase focus on their part and improves stakeholder transparency.

## Organisational purpose score breakdown

\*Percentage score represents the total number of charities who achieved each numerical score.

### Key guide

5 – Best in class  
4 – Excellent  
3 – Good  
2 – Average  
1 – Poor  
0 – No evidence of compliance



## The board is clear about the charity's aims and ensures that these are being delivered effectively and sustainably

Charities are required under the Charities Statement of Recommended Practice (SORP) to outline objectives and activities to clearly delineate how they further their charitable purpose for the public benefit. Our analysis found that every charity sampled contained a statement clearly stating their public benefit. As charities are required to do this, the results are as expected. Why then, in the Charity Commission's latest review of public benefit reporting<sup>2</sup>, did the Commission conclude that charities are not doing enough to demonstrate their benefit or explain how they spend their money?

Put simply, failing to explicitly state what the organisational purpose is weakens the impact of your charity's message and therefore impacts on donation income. The same would be true of any corporate organisation. How can you aim to communicate clearly with your stakeholders if you cannot accurately define and show what you are setting out to achieve?

<sup>2</sup> <https://www.gov.uk/government/publications/accounts-monitoring-review-public-benefit-reporting-by-charities/public-benefit-reporting-by-charities>, published 20th December 2018



## 2. Leadership

score of 65 per cent

### Best in class

This charity provided a wealth of transparency relating to their leadership. Board members were listed as well as all trustees, dates of appointments and committees on which they served. The structure of the organisation and roles played by each committee were clearly outlined. All committees undertake a performance evaluation annually, taking feedback onboard and implementing aspects for improved Governance. The charity has an equality and diversity policy which extends across the organisation. They provided an extensive level of detail relating to their operations and leadership.

### Key considerations

A well-defined and clear leadership strategy has many benefits. One of the most significant is that the charity's values are consistently delivered by not just the board, but by employees and are communicated effectively to potential and existing donors. Consider reflecting on existing arrangements to agree an action plan to improve your leadership agenda and reporting mechanisms to the leadership team, allowing your trustees to make better informed decisions.

Details of a training programme for board members, with further explanation as to the time commitment required for certain roles, demonstrates a clearly defined and realistic leadership team.

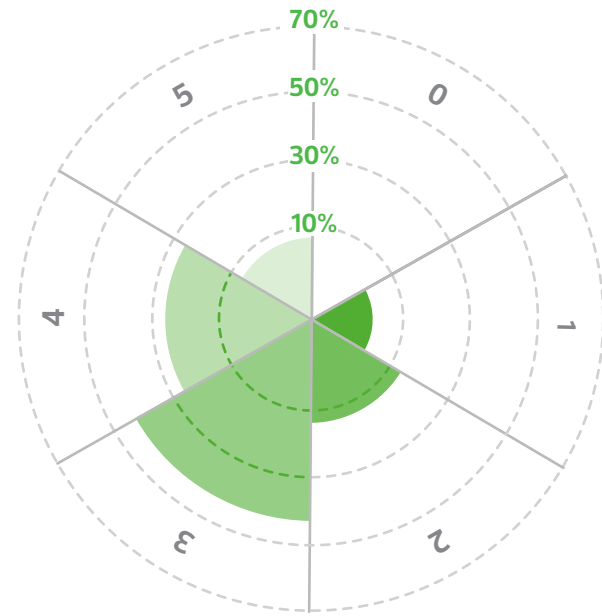
## Leadership

### score breakdown

\*Percentage score represents the total number of charities who achieved each numerical score.

### Key guide

5 – Best in class  
4 – Excellent  
3 – Good  
2 – Average  
1 – Poor  
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### Every charity is led by an effective board that provides strategic leadership in line with the charity's aims and values

The disclosure of a charity's trustees, or board members, within the annual report is a requirement applicable to all charitable organisations. A charity demonstrating exemplary leadership would need to disclose further details on their board members, clarifying the function of their leadership and how the strategy is devised. Practically, charities can display good leadership by:

- detailing the means through which the board provides its oversight and directs the organisation;
- providing a direct reference to how they deliver their aims, such as their grant giving strategies or formal business plan;
- evidencing the development of an open culture across the charity; and
- consideration of the time commitments needed to effectively undertake leadership roles and activities.



### 3. Board effectiveness score of 57 per cent

#### Best in class

When addressing its board of trustees, the charity described an open and thoughtful recruitment process, with consideration granted to areas of diversity and the promotion of new perspectives. The trustees' induction process was also described in addition to a formal, rigorous and regular evaluation of the board and its chairman and trustees. Aspects demonstrating board effectiveness were apparent throughout the annual report.

#### Key considerations

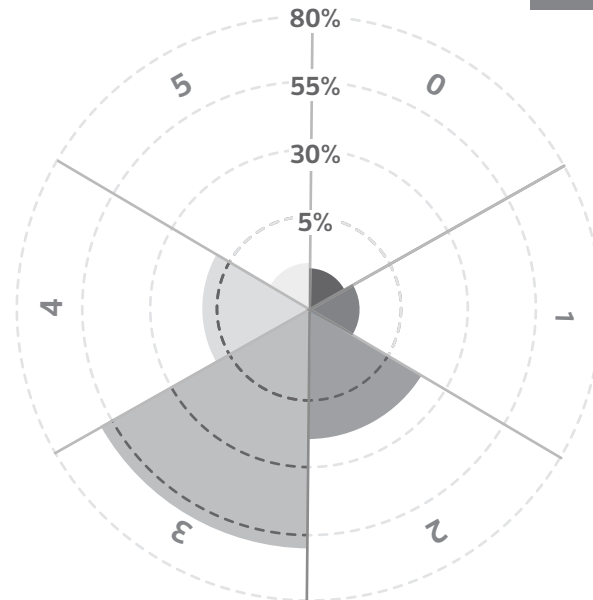
As best practice, take additional steps to implement or report on board's effective processes or procedures. Consider the diversity of skills and profile of trustees on the board to ensure that your board is representative of the people that your charity is striving to help. Consider using benchmarking tools based on market data, such as from sector surveys and reports, to inform and review board structure. Repositioning your board structure in line with a tried and tested method, clearly evidenced in your annual report and delivered effectively by trustees downwards throughout the organisation, will give your charity the best chance at succeeding in its goals.

## Board effectiveness score breakdown

\*Percentage score represents the total number of charities who achieved each numerical score.

#### Key guide

5 – Best in class  
4 – Excellent  
3 – Good  
2 – Average  
1 – Poor  
0 – No evidence of compliance



### The board works as an effective team, using the appropriate balance of skills, experience, backgrounds and knowledge to make informed decisions

The Governance Code, in line with the existing SORP, recommends a "formal, rigorous and transparent procedure to appoint new trustees". Further to this there should be a rigorous review process that is disclosed within the annual report. All but one of the charities in our sample addressed these two recommendations.

Mid-range ratings were predominant for this principle, indicating that although basic requirements are being addressed, there are far fewer charities taking additional steps to implement or report on their board effectiveness processes and procedures.

Beyond having a trustee recruitment process, charities need to display their consideration towards board reviews and skills audits, talent of the collective board composition and an adherence to keeping the board size between the recommended five and 12 trustees. In cases where the number of trustees on the board was not in this range, a clear and reasonable explanation needs to be included in the annual report to justify the decision.





## 4. Decision-making, risk and control

score of 51 per cent

### Best in class

The annual trustee risk statement was thoughtful, detailed and presented in an easily digestible and understandable manner. Principle risks were outlined in relation to key priorities and the broader context is provided. For each principle risk, a strategy is outlined in connection to staff training and related support provided to address and mitigate as appropriate. A 'continuous improvement' section within the report outlines further steps that are being taken to enhance policies and align with strategic initiatives, indicating a thorough review process is regularly implemented.

### Key considerations

Charities must consider a multitude of factors when looking to place controls on their decision making and risk management procedures. Essential processes detailing how supply chains are managed, external auditor appointments are made, and risk management approaches are formed must be published and revisited on a cyclical basis. With safeguarding policies for example, having this clearly displayed on your website and annual report provides assurance that you are acting in a responsible way and proving that the safety of those involved in the charity's operations is of paramount importance.

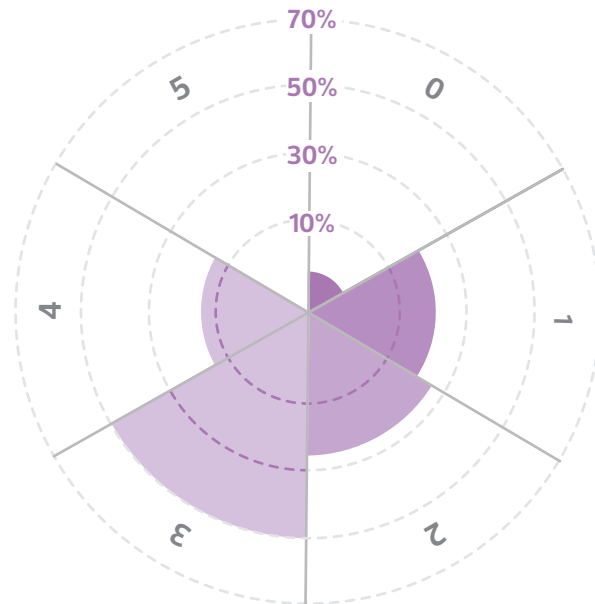
## Decision-making, risk and control

### score breakdown

\*Percentage score represents the total number of charities who achieved each numerical score.

#### Key guide

5 – Best in class  
4 – Excellent  
3 – Good  
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1 – Poor  
0 – No evidence of compliance



### The board makes sure that its decision-making processes are informed, rigorous and timely and that effective delegation, control and risk assessment and management systems are set up and monitored

Basic alignment with the Code's recommendations relating to decision-making, risk and control require that charities describe their approach to risk within their annual reports, in line with existing regulatory requirements. The multitude of risks that charities experience in their operations, which are further exacerbated if the charity has an international reach, are continually evolving. Risks such as safeguarding and cyber security need to be properly documented in a risk register and outlined in the annual report to ensure that not only the problem has been acknowledged, but also that it is being dealt with effectively.

Broadly speaking, to comply with this principle of the Code charities would need to consider:

- regular policy and procedure reviews;
- oversight of third-party suppliers;
- process for the appointment of auditors;
- evidence of benchmarking procedures; and
- establishment of processes to review operational plans and aims.

Our analysis found that in most cases, one or two of these broad topics alongside a statement of major risks were adequately addressed. No charity achieved a perfect score for their demonstration of decision-making, risk and control practices.



## 5. Openness and accountability score of 40 per cent

### Best in class

Their disclosure of their remuneration policy and process for benchmarking salaries was thorough and transparent. The charity has an established complaints procedure in which the supporter care team addresses every complaint and responds within three working days. Board feedback is considered and employed for improvements to processes. Further, they demonstrated their commitment to transparency and accountability in other areas as well, including reviewing all records from a ten-year period in response to recent media coverage surrounding safeguarding. Policies are regularly reviewed and revised to implement continuous improvements.

### Key considerations

Fully disclosing your trustees and their biographies on your website clearly sets out who the decision makers are in the organisation and makes them more accountable for said decisions. Transparency breeds trust in your stakeholders and makes your charity's goals more accessible to your donors and stakeholders. With better transparency, a clearer decision-making process follows.

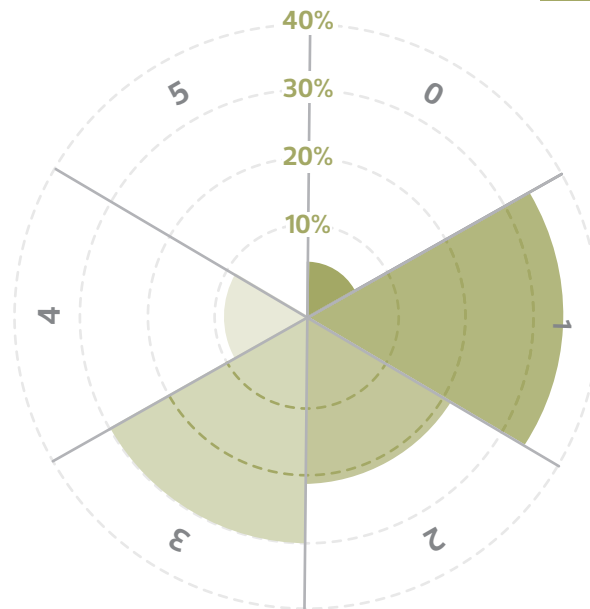
An excellent tool for improving openness is to include a disclosure policy on your website, which details what information you hold and how you process it. In an increasingly data-centric world, providing assurance that you handle private and, in some cases, sensitive information securely increases donor confidence in your charity's ability to act in the public interest. Include beneficiary stories on your website and external messaging, as this articulates the link to your grass roots and ultimately evidences the impact of your charity.

## Openness and accountability score breakdown

\*Percentage score represents the total number of charities who achieved each numerical score.

### Key guide

- 5 – Best in class
- 4 – Excellent
- 3 – Good
- 2 – Average
- 1 – Poor
- 0 – No evidence of compliance



The board leads the organisation in being transparent and accountable. The charity is open in its work, unless there is good reason for it not to be

The key piece of recommended practice in establishing this principle is to implement and demonstrate structured communication with key stakeholders who are involved in the charity's work, as well as devising a process for being open with all complaints or successes, ensuring that the right people are accountable in dealing with them.

The Code's recommended practice suggests that the process for setting senior staff remuneration, as well as their levels, should be published on both their website and in annual reports. 95 per cent of charities in our sample complied with this. However, over a third were found to have disclosed only this policy and provided no further evidence of this principle.

Unlike public sector entities, there isn't the same expectation for boards to hold open board meetings, but there is a strength in engaging with stakeholders and a legitimacy to be derived from doing so in a meaningful manner. For example, trustees need to make sure they fulfil their legal duties and act independently of any interest groups. With the public availability of minutes, difficulties can be encountered where the board deals with people who may be named or have entered into commercial activities – so the confidential and commercial sensitivity of some discussions may prevent trustees from engaging too much with this principle. As a minimum, charities should be operating in a transparent manner, unless there is a good reason to keep their activities behind closed doors.



## 6. Integrity

score of 37 per cent

### Best in class

They produced a succinct statement detailing their adoption of the Charity Governance Code as it applies to their unique organisational structure and constitution. In demonstrating integrity, the charity not only adheres to existing requirements but provides a Manual of Governance that regulates the conduct of council business and members. They also exceeded areas of the Code in areas of conflicts of interest by having an established Conflicts Committee and publishing a Conflicts Policy. This is in addition to applying recommendations for identifying, dealing with and recording any conflicts of interest.

### Key considerations

A key tool for boards to use to demonstrate integrity is to compile a formal statement, contained in the annual report as a minimum, detailing potential conflicts of interest. This statement would include policies on hospitality and gifts, what the organisation's approach is in dealing with third parties and the financial limit that employees must not exceed, to preserve a stellar reputation.

Abiding by a fit and proper persons regime is another step that should be taken to demonstrate integrity. HMRC's fit and proper persons test is designed to exercise discretion in allowing mistakes and ensuring there has been no intentional misuse of tax reliefs. The test applies to anyone who has 'general control and management of the administration of the charity'. The fitness and propriety benchmark is an essential tool to ensure that all trustees and directors are suitable to perform a controlled function. Demonstrating adherence to this tool further adds to the credence that a charity is being managed by the best and most appropriate people for the role.

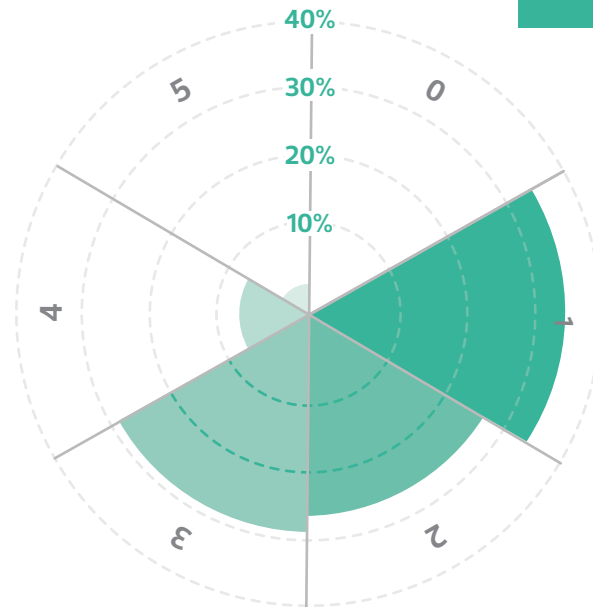
## Integrity

### score breakdown

\*Percentage score represents the total number of charities who achieved each numerical score.

#### Key guide

- 5 – Best in class
- 4 – Excellent
- 3 – Good
- 2 – Average
- 1 – Poor
- 0 – No evidence of compliance



The board acts with integrity, adopting values and creating a culture which help achieve the organisation's charitable purposes. The board is aware of the importance of the public's confidence and trust in charities, and trustees undertake their duties accordingly

Charities SORP recommends the inclusion of a formal statement within annual reports stating compliance with prevailing laws and regulations. The Code takes this regulatory requirement and expands on it, stating that charities should further consider non-binding rules, codes and standards, specifically, the adoption of a suitable code of conduct. Worryingly, only 35 per cent of charities analysed demonstrated the basic regulatory requirement, without further detailing how the wider public's perception of the charity has been taken into consideration. There is clearly a lot more to be done by charities to go above and beyond basic compliance.



## 7. Diversity

score of 17 per cent

### Best in class

The charity provided a dedicated section in their annual report outlining their commitment to equality, diversity and inclusion. The charity has a five-year Equality Scheme that is overseen by a National Inclusion Group. The principle of diversity runs through their policies, which aim to embed these practices across the organisation from the recruitment of its workforce to the behaviours and practices of the charity. The charity also published a diversity statement in the form of their equality scheme which sets objectives and an overall vision for inclusion.

### Key considerations

In practice, diversity Governance can also be evidenced through external partnerships. Promoting diversity in an organisation is not simply a board issue and cannot solely be focused on the organisation's own board and workforce. Partnering with important external groups who champion diversity, such as LGBT+ or gender empowerment networks, is an excellent way of raising awareness of and contributing to tackling key social issues, outside of the charity's primary goal.

Consider appointing diversity champions, who are responsible for promoting your charity's diversity policy and act as a figurehead for employees to turn to if they have concerns or suggestions.

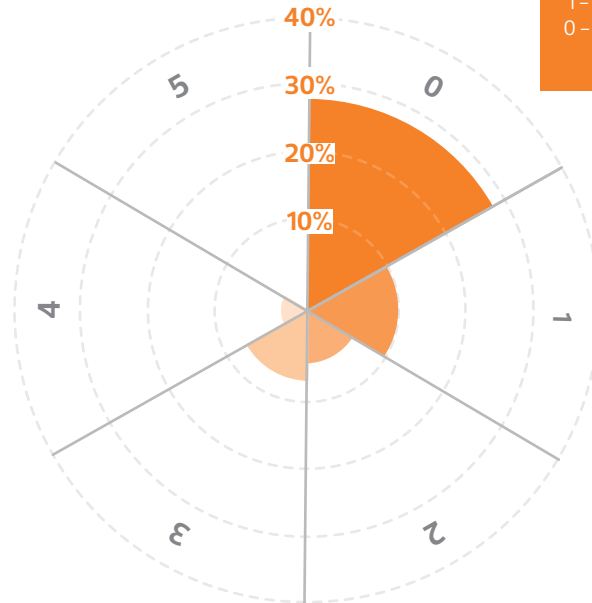
Boards need to look holistically at the benefits that diversity can bring and consider withdrawing from established and familiar networks for their recruitment. While this can be a challenging initiative to undertake, the benefits will far outweigh the expended effort as new ideas are brought to the table and a more inclusive culture permeates through all levels of the charity.

## Diversity score breakdown

\*Percentage score represents the total number of charities who achieved each numerical score.

### Key guide

- 5 – Best in class
- 4 – Excellent
- 3 – Good
- 2 – Average
- 1 – Poor
- 0 – No evidence of compliance



## Boards composed of trustees with different backgrounds are more likely to encourage debate which leads to better made decisions

For a sector that works on the forefront of change, across borders and prioritising moral agendas, with a multitude of different people, it is concerning to see such disregard in tackling a crucial operational issue.

Diversity data in 2018 found only a 0.3 per cent increase in the level of ethnic minority individuals on large charity boards. As a sector, the results are unsatisfactory at best and raises the question of what pressure this puts on the sector to make real progress on this issue. The charity sector remains behind public companies with 7 per cent of trustees being from an ethnic minority background – this compares to 8 per cent on FTSE 100 boards.

A diversity statement is the minimum standard that charities should be including in their annual report, as well as on their website, to display good Governance in this principle. A well-defined, actionable and realistic diversity policy will acknowledge the key areas that need improvement in the organisation, as well as setting out a transparent path that will achieve positive results.

## Key findings on diversity

- Only 22 per cent of charities adhered to guidance relating to diversity statements.
- Of the 85 charities assessed, we only identified 19 organisations that provided diversity statements.
- 55 per cent of charities analysed showed no clear indication of its consideration at all.
- Of all 85 charities surveyed, not one from within the smallest income tier had statements located on diversity, and no statements were found by charities in the housing and financial support or relief of poverty action types.

## Examples of diversity headlines, as reported in national and sector press

“ “  
 More than 60,000 trustees called either John or David.  
**Civil Society, 20 November 2017** ” ”

“ “  
 Report reveals charities' lack of ethnic and gender diversity.  
**Personnel Today, 6 June 2018** ” ”

“ “  
 Where's the diversity among charity trustees, asks critical report Study in England and Wales reveals senior leadership of organisations such as Oxfam and Save the Children is significantly less diverse than FTSE 100 firms.  
**The Guardian, 19 April 2018** ” ”

“ “  
 Those from lower socioeconomic groups are more likely to say they have never been involved in volunteering, and those who have are less likely to be in certain leadership or representative roles, like being a trustee.  
**Charity Times, 25 January 2019** ” ”

“ “  
 More Steve's are FTSE 100 CEOs than ethnic minorities.  
**Institutes of Chartered Accountants in England and Wales, 7 February 2019** ” ”

## Conclusion and horizon scan



There is lots in the research that is encouraging. Of the charities analysed, 44 per cent have been 'early adopters' of the new edition of the Charity Governance Code. Of those half – or over 25 per cent of all charities analysed – have posted high scores.

It is also really powerful reading that those charities who have adopted the Code have higher Governance ratings – by 10 per cent – than those who have not adopted it.

The detailed analysis provides more colour and helps to highlight those aspects of the Code where charities are doing well, such as organisational purpose and leadership, and those, such as diversity, they find more problematic.

The learning for the steering group is therefore two-fold. First, we recognise that there is still a big job to do to increase awareness and use of the Code. Second, we will highlight those areas of the Code where charities need additional guidance and support to infrastructure organisations and organisations that work with charities.

And, finally, we need to reflect on:

- areas of the Code that may need greater emphasis or clarity, such as the diversity principle;
- changes in the sector since the Code was published in 2017 such as the publication of ethical principles for the sector in response to the safeguarding incidents; and
- learning from Governance developments in other sectors.

This research provides invaluable evidence and findings to help take that work forward and show the value of the Code.

**Rosie Chapman, Chair of Governance Code steering group**





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