**THE GOVERNANCE CODE**

The Code of Governance (COG), was originally launched in July 2005 by the National Governance Hub and revised in October 2010. It sets out a statement of good practice in governance for the voluntary and community sector. It has been endorsed by the Charity Commission. The code was revamped by the National Council of Voluntary Organisations (NCVO) and the latest edition was published in July 2017. It is now much simpler and the recommended practice is easier to follow. It is now called THE GOVERNANCE CODE.

Originally it was intended that The Governance Code would be aimed at all voluntary and community organisations, regardless of size or type. It was however recognised that very small organisations, particularly those that did not employ staff, found both the language and the criteria difficult to grasp.

In November 2011 a Governance Code Steering Group produced Good Governance - A Code for the Voluntary and Community Sector - Version for smaller organisations. Both versions are aimed at the organisations and the Trustee Boards that govern them. It is therefore useful for:

* + Members of a Trustee Board (or other governing body);
	+ Member of staff (if appropriate) with responsibility for supporting the Trustee Board;
	+ Development workers, advisors or trainers involved in training and supporting Trustee Boards.

The current (July 2017) version takes smaller organisations into account and whilst in each area the Principle, Rationale and Key Outcomes remain the same for both large and small organisations, in some areas there are significant differences in recommended good practice.

The COG is not mandatory as the sector is very diverse, making a mandatory standard difficult to manage. Some organisations may not comply with certain statements because they are in the process of working towards them, and thus aspire to them. Alternatively, they may exceed the standards outlined in this guidance, or it may be that aspects of this Code do not easily relate to the circumstances of a particular organisation.

Smaller organisations with limited resources and with few or no staff will now find it much easier to comply with the COG using the version for smaller organisations. Organisations using the COG have the opportunity to state their compliance with it by stating this in their Annual Report and other relevant materials.

The Governance Code covers seven areas. The principles, rationale and key outcomes (with a short commentary) for the seven areas are as follows:

**1. Organisational purpose**

**Principle**

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

**Rationale**

Charities exist to fulfil their charitable purposes. Trustees have a responsibility to understand the environment in which the charity is operating and to lead the charity in fulfilling its purposes as effectively as possible with the resources available. To do otherwise would be failing beneficiaries, funders and supporters.

The board’s core role is a focus on strategy, performance and assurance.

**Key outcomes**

* 1. The board has a shared understanding of and commitment to the charity’s purposes and can articulate these clearly.
	2. The board can demonstrate that the charity is effective in achieving its charitable purposes and agreed outcomes.

This principle emphasises the need for trustees to develop long term strategies to move the organisation forward, monitoring progress and budgets and remaining alert to external environmental factors in achieving the organisation’s aims and objectives. It also emphasises the need for trustees to ensure that the organisation remains focused on delivering its purposes and avoids “mission drift”. It also highlights the need to work in partnership with other organisations.

**2. Leadership**

**Principle**

Every charity is headed by an effective board that provides strategic leadership in line with the charity’s aims and values.

**Rationale**

Strong and effective leadership helps the charity adopt an appropriate strategy for effectively delivering its aims. It also sets the tone for the charity, including its vision, values and reputation.

**Key outcomes**

* 1. The board, as a whole, and trustees individually, accept collective responsibility for ensuring that the charity has a clear and relevant set of aims and an appropriate strategy for achieving them.
	2. The board agrees the charity’s vision, values and reputation and leads by example, requiring anyone representing the charity reflects its values positively.
	3. The board makes sure that the charity’s values are reflected in all of its work, and that the ethos and culture of the organisation underpin the delivery of all activities.

This covers some of the essential roles and responsibilities of trustees and lays particular stress on the roles relating to legal duties and accepting ultimate responsibility for the way the organisation is run. Even in smaller organisations there is a need for trustees to appreciate the importance of their role and how knowledge of the external environment i.e. what is happening outside their organisation will help them fulfil their legal duties in leading the organisation effectively.

**3. Integrity**

**Principle**

The board acts with integrity, adopting values and creating a culture which helps 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.

**Rationale**

Trustees, and the board members collectively, have ultimate responsibility for the charity’s funds and assets, including its reputation. Trustees should maintain the respect of beneficiaries, other stakeholders and the public by behaving with integrity, even where difficult or unpopular decisions are required. Not doing this risks bringing the charity and its work into disrepute.

**Key outcomes**

* 1. The board acts in the best interests of the charity and its beneficiaries. The board is not unduly influenced by those who may have special interests and places the interests of the charity before any personal interest. This applies whether trustees are elected, nominated, or appointed. Collectively, the board is independent in its decision making.
	2. The board safeguards and promotes the charity’s reputation and, by extension, promotes public confidence in the wider sector.
	3. Members of the board and those working in or representing the organisation are seen to be acting with integrity, and in line with the values of the charity.

The public still sees charities as organisations they can trust, more than most other institutions such as the Government or business. This principle seeks to emphasise the importance of trustees following high ethical standards. In smaller organisations it is important to remind trustees that they cannot receive any benefit from their charity in return for any service they provide (apart from legitimate expenses), unless they have express legal authority to do so - from a clause in the charity’s governing document (e.g. constitution) or the Charity Commission or by law.

**4. Decision making, risk and control**

**Principle**

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.

**Rationale**

The board is ultimately responsible for the decisions and actions of the charity but it cannot and should not do everything. The board may be required by statute or the charity’s governing document to make certain decisions but, beyond this, it needs to decide which other matters it will make decisions about and which it can and will delegate.

Trustees delegate authority but not ultimate responsibility, so the board needs to implement suitable financial and related controls and reporting arrangements to make sure it oversees these delegated matters. Trustees must also identify and assess risks and opportunities for the organisation and decide how best to deal with them, including assessing whether they are manageable or worth taking.

**Key outcomes**

* 1. The board is clear that its main focus is on strategy, performance and assurance, rather than operational matters, and reflects this in what it delegates.
	2. The board has a sound decision-making and monitoring framework which helps the organisation deliver its charitable purposes. It is aware of the range of financial and non-financial risks it needs to monitor and manage.
	3. The board promotes a culture of sound management of resources but also understands that being over-cautious and risk averse can itself be a risk and hinder innovation.
	4. Where aspects of the board’s role are delegated to committees, staff, volunteers or contractors, the board keeps responsibility and oversight.

This principle emphasises the importance of having clear systems and procedures in decision-making and carrying out the work of the organisation and having these in writing, so that it is clear how work is delegated. It emphasises the need for Board members to regularly review the range and impact of risks the organisation faces and makes clear that the Board is ultimately responsible for the decisions made and actions taken.

Smaller organisations may only need a few policies, such as Health and Safety and Equal Opportunities, particularly if they do not employ paid staff. One issue though that needs careful thought is that of delegation. Sometimes in small groups trustees or management committee members go off and “do their own thing”, making decisions as they go along. It is important that individual Board members are clear about what decisions they can and cannot make by themselves.

**5. Board effectiveness**

**Principle**

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

**Rationale**

The board has a key impact on whether a charity thrives. The tone the board sets through its leadership, behaviour, culture and overall performance is critical to the charity’s success. It is important to have a rigorous approach to trustee recruitment, performance and development, and to the board’s conduct. In an effective team, board members feel it is safe to suggest, question and challenge ideas and address, rather than avoid, difficult topics.

**Key outcomes**

* 1. The board’s culture, behaviours and processes help it to be effective; this includes accepting and resolving challenges or different views.
	2. All trustees have appropriate skills and knowledge of the charity and can give enough time to be effective in their role.
	3. The chair enables the board to work as an effective team by developing strong working relationships between members of the board and creates a culture where differences are aired and resolved.
	4. The board takes decisions collectively and confidently. Once decisions are made, the board unites behind them and accepts them as binding.

This principle concentrates on the quality of an organisation’s trustees and the need for the Board to meet often enough to ensure that the business of the organisation is carried out efficiently. It looks at the effectiveness of the group’s governance and management structure and performance.

With some small groups the Board of Trustees / management committee may have had the same personnel for many years. This can sometimes lead to a lack of freshness and new ideas and results in groups losing touch with its members or what is happening “in the outside world”.

**6. Diversity**

**Principle**

The board’s approach to diversity supports its effectiveness, leadership and decision making.

**Rationale**

Diversity, in the widest sense, is essential for boards to stay informed and responsive and to navigate the fast-paced and complex changes facing the voluntary sector. Boards whose trustees have different backgrounds and experience are more likely to encourage debate and to make better decisions.

The term ‘diversity’ includes the nine protected characteristics of the Equality Act 2010 as well as different backgrounds, life experiences, career paths and diversity of thought. Boards should try to recruit people who think in different ways, as well as those who have different backgrounds.

**Key outcomes**

* 1. The board is more effective if it includes a variety of perspectives, experiences and skills.
	2. The board ensures that the charity follows principles of equality and diversity, going beyond the legal minimum where appropriate.

Whereas in the past versions, diversity underpinned all the areas, in the 2017 version it has been given its own specific area, in terms of developing a diverse board and ensuring that trustees are recruited from as diverse a field as possible.

**7. Openness and accountability**

**Principle**

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.

**Rationale**

The public’s trust that a charity is delivering public benefit is fundamental to its reputation and success, and by extension, the success of the wider sector. Making accountability real, through genuine and open two-way communication that celebrates successes and demonstrates willingness to learn from mistakes, helps to build this trust and confidence and earn legitimacy.

**Key outcomes**

* 1. The organisation’s work and impact are appreciated by all its stakeholders.
	2. The board ensures that the charity’s performance and interaction with its stakeholders are guided by the values, ethics and culture put in place by the board. Trustees make sure that the charity collaborates with stakeholders to promote ethical conduct.
	3. The charity takes seriously its responsibility for building public trust and confidence in its work.
	4. The charity is seen to have legitimacy in representing its beneficiaries and stakeholders.

The final principle looks at the importance of good communication between trustee Boards and their organisations’ members or users. It promotes the importance of an open process of communication.

If you would like to run off a chart of the actual criteria for each principle, you can do so here. You can then judge which criteria you want to work towards and chart your progress. The criteria we are using are those designed for smaller organisations. They are not very different from the ones for larger organisations.