



Perspectives

Charities: time to grow up?

Dr Bharat Vagadia

Op2i

2/1/2012

Big Society – Lost opportunities

The voluntary and community sector have 190,000 registered charities and another 100,000 estimated other regulated charitable organisations. The sector employs some 600,000 people and has an annual turnover of approximately £40 billion. It is fair to say that the third sector is a significant and important segment of the UK economy.

The environment in which voluntary and community organisations operate is however changing. There is an ever increasing onus on trustees and boards to ensure a robust system of self governance. Statement of Recommended Practice (SORP 2005) stresses the growing importance of effective trustees training inductions. The Charity Act 2006 also places more and more emphasis on governance. The Companies Act 2006 removes the special provisions concerning small company charities. These are just a few examples of where changes in regulation are placing more weight on good governance.

Moreover the UK government foresees an increase in the role and reliability on this sector to deliver the services demanded by local communities. The Government has unveiled new Big Society plans to make it easier and more attractive to give time and money to good causes. The Localism Bill currently before Parliament is a landmark piece of legislation, lifting top-down bureaucratic burdens such as the requirement to prepare regional strategies and empowering communities with new rights, such as the right to bid for ownership of community assets and to challenge to run local authority services.

The Government is providing £30 million of investment in a local infrastructure fund, which will be delivered by the Big Lottery Fund, to improve support for frontline civil society organisations in England by helping both general and volunteering infrastructure organisations to modernise and improve the relevance of their services. However, transparency will be important in the context of opening up public services to enable charities and social enterprises to deliver services. Public service reform will provide new funding streams for the sector, but in return they will be required to clearly demonstrate their social impact and solid governance structures.

The Government whilst wanting the charity sector to do more, has not dramatically increased funding. The funding that has been made available appears to be targeted towards volunteers themselves rather than charity organisations, take the following examples:

- The Social Action Fund, Challenge Prizes and Local Infrastructure Fund is making over £40 million of funding available over the next two years to support volunteering, giving and volunteering infrastructure;
- £1 million has been provided to support Youthnet which runs the volunteering website www.do-it.org.uk and which will share its data more freely with organisations;



- £700,000 made available to support Philanthropy UK connecting wealthy people with charities that need their support;
- £400,000 support from Government and NESTA to trial 'Spice' in England which gives volunteers 'thank yous' like vouchers or discounts with local businesses when they do good things for the community;
- The Department of Health's Health and Social Care Volunteering Fund is also supporting proposals to provide great opportunities for people to participate. It will provide two distinct grant-funding schemes: A local grant scheme aimed at supporting volunteering in health and social care and a national portfolio scheme for national organisations invited to apply for more substantial awards to deliver more strategic or developmental volunteering programmes. The first national scheme was launched in November 2010 and the application process is in its final stages. The total pot of funding available is around £3 million across two years, and chosen projects will receive up to £200,000.

The need to redefine business models

The turbulent economic climate has put an unprecedented amount of pressure on charities. Tougher economic times have resulted in significant cuts in statutory funding, reduced donations from the public and a sharp rise in the demand for the services that charities provide. The charity sector is also being called on to play increasing role in delivering public services. At the same time, charities are under intense scrutiny internally and by the public. They need to be increasingly transparent and cost effective. They face significant strategic and operational challenges to improve efficiencies and demonstrate value-for-money, whilst delivering high quality services.

More and more charities will find it difficult to continue to operate in this environment. Good governance, accountability and clear and concise reporting will be critical to survival.

Significant reliance on one source of funding (either through core funding or grants) is a large part of the voluntary sector. We have seen much 'belt tightening' over the past two years and more is to come. Charities will continue to suffer reduced funding from Government. Charities are finding it difficult to operate in a quasi-commercial way with funders only interested in providing funds to cover direct costs and not overheads.

Reduced funding, diminishing donations, and increased scrutiny are just some of the challenges facing charities. In this difficult climate, good planning has never been more important. Small cuts encourage third sector organisations to look for efficiencies - streamlining processes, making better use of technology, and saving money on premises. Larger cuts raise the need to examine effectiveness - are we doing the right things? The search for efficiencies draws organisations to business plan thinking with short term objectives, just a step up from work planning with highly detailed team and individual responsibilities. The pursuit of effectiveness is far more strategic and raises more difficult questions of change.



While the word 'strategy' is in far greater use in the sector, the content of too many strategies has been driven by efficiencies and short term horizons to the exclusion of more open strategic thinking. There is of course no substitute for assuring sustainability of the organisation but this is not a recession to be survived by short term actions alone.

Time to implement good strategic governance systems

Now, more than ever, there is a need to plan – to get your strategy right, manage risk and work smarter. Charities need to set priorities and explore all options to reduce costs and maintain services. It is likely that market forces and increased public scrutiny will result in more collaboration and we are likely to see a number of mergers in the sector. Reduced income will threaten the level of service that some charities offer while for others it will threaten their very existence. Many charities are too small to benefit from a critical mass that would enable them to function efficiently and to leverage the buying power that size could afford them.

Research undertaken by the Association Management Institute found that within the charities and not-for-profit sector in Australia:

- 72% are at risk of a corporate governance breach
- 63% do not have a corporate governance policy or adequate checks and balances to avoid a financial disaster
- 61% of board members have little or no understanding of corporate governance issues and/or their role as directors
- 78% of board members and 59 per cent of executive directors cannot identify their roles and responsibilities in terms of corporate governance and/or their legal and compliance responsibilities
- 89% of association board members do not undertake any board induction course or regular training.

Governance and reporting were never more important. Inadequate information for decision making may lead to the demise of a charity. As in all businesses, trustees must have good quality management information on which to base decisions and so as to react quickly to critical funding situations. This can only be achieved with access to regular and reliable financial and operational information that is reported on frequently.

Charities need to review their management information systems and ensure that there is a proper audit trail for all transactions, that income and costs are recognised in the correct period, that assets are carried at appropriate values in the balance sheet and that all liabilities are recognised. An over-reliance on spreadsheets can result in poor management information. Management accounts with



appropriate details of activities, including key performance indicators, should form part of the management reporting pack. There should be a focus on cash flows and regular monitoring of the income and expenditure account and balance sheet. Trustees should query and challenge assumptions, especially in cash strapped charities that are taking on new projects. Good fashioned corporate governance.

However, whilst charities re-examine their governance processes, they should take the opportunity to implement good governance. Good governance goes beyond corporate governance, whilst is to a large extent historic, financially focused and concerned with how the board protects the external stakeholders funds, who may be the government or public donors in this case. However in times of change, another aspect of governance needs careful consideration, that of strategic governance. Strategic governance is about the board having oversight and insight into what decisions, risks and compliance the organisation has at any given time. Having the necessary information to inform their decision making and about the implementation of systems that provides the rest of the organisation a robust mechanism to make strategic decisions which are robust and aligned to the charities vision and purpose.

The decision to approach governance in a more systematic way may well be triggered by a desire to open up new fund-raising avenues by seeking official charitable status, requiring incorporation. Because the organisation may now have access to funds from the government, foundations, or the public at large, questions of accountability become more salient, as does the role of the board.

The pathway to better governance is cluttered with the usual barriers: insufficient time, resources, expertise, and too many immediate pressures. But often the key impediment is that organisations don't have a clear concept of what governance means, why it matters, or how to move from where they are now to better governance.



This perspective has been written by Dr Bharat Vagadia of Op2i – its purpose is to challenge current thinking, stimulate debate and start a dialogue towards a better understanding of Good Governance within Charities and the No-for-Profit sector.

We are keen to hear different view, perspectives and thoughts from those involved with or have an interest in the Charity and Not-for-Profit governance.

We will be running a series of roundtables based around this perspective, to facilitate knowledge and experience sharing amongst practitioners in the area of good governance in Charities and Not-for-Profit sectors.

If you would like to comment or share your own perspectives or would like to be kept informed of the round tables around Good Governance, please do email me.

Yours humbly,

Dr Bharat Vagadia

Op2i
London
+44 (0) 207 193 4339
www.Op2i.com
bharat" dot" vagadia "at" Op2i "dot" com

