



TRUSTEES &
GOVERNANCE

The Hallmarks of an Effective Charity



The Charity Commission

The Charity Commission is the independent regulator of charities in England and Wales. Its aim is to provide the best possible regulation of charities in England and Wales in order to increase charities' effectiveness and public confidence and trust. Most charities must register with the Commission, although some special types of charity do not have to register. There are some 180,000 registered charities in England and Wales. In Scotland the framework is different, and the Commission does not regulate Scottish charities.

The Commission provides a wide range of advice and guidance to charities and their trustees, and can often help with problems. Registered charities with a gross annual income or expenditure over £10,000 must provide annual information and accounts to the Commission. The Commission has wide powers to intervene in the affairs of a charity where things have gone wrong.

More information about the Commission together with a range of guidance for charities can be found on our website www.charitycommission.gov.uk, or by contacting Charity Commission Direct:

Telephone: **0845 300 0218**
Typetalk: **0845 300 0219**
By post: **Charity Commission Direct**
PO Box 1227
Liverpool
L69 3UG

The Hallmarks of an Effective Charity

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A

Foreword

A message from the Chair and the Chief Executive of the Charity Commission to charity trustees

Dear Reader,

Charities operate for many different purposes but share a common desire to do the best for their beneficiaries. To do this, it's vital that trustees keep asking the questions: "What have we achieved?" and "what can we do to improve?" Having clear goals against which to measure performance, being well run, making the most of resources and being open and accountable, are key to finding the answer.

This revised and updated version of our guidance encourages a positive approach to improvement. It's a straightforward framework of good practice which includes the relevant regulatory requirements. Any legal requirements are clearly identified, but most of the guidance is concerned with what we, as the charity regulator, have identified as basic good practice principles or Hallmarks. Our aim is to provide a framework within which charities have the confidence to carry out their work, innovate and evolve.

The Hallmarks of an Effective Charity is designed to work in a complementary way with - not in place of - other guidance, standards and codes of governance that charities may use. If you are not following another code or standard, Hallmarks is a good place to start.

Charities have a history of innovation, and a reputation for looking imaginatively at different ways of doing things, influencing the environment in which they operate and learning from, and sharing with, others. We hope that Hallmarks will enable charities, and their trustees, continually to improve the effectiveness of their work for the public benefit.

Dame Suzi Leather
Chair

Andrew Hind
Chief Executive



Introduction

B1. Why are we producing this guidance?

The Charity Commission is the independent regulator of charities in England and Wales. Part of our role as regulator is to encourage charities to adopt good practice in all aspects of their operations and activities. Adopting good practice can help charities keep pace with changes and make them more effective where it really counts – in providing the best possible service to the people they were set up to benefit. It can also help to ensure that they fulfil their legal responsibilities.

B2. What is this guidance about?

This guidance sets out the standards that will help trustees to improve the effectiveness of their charity, and the principles that our regulatory framework exists to support. We have divided these into six Hallmarks or principles. For each of these, we have listed a number of ways in which the Hallmarks might be demonstrated, but not every example will apply to every charity. Whilst a few of these are legal requirements, most are matters of good practice.

Although these Hallmarks will be relevant for all charities, the way in which they can be demonstrated or achieved will vary depending on the size, income, complexity and activities of each charity, although some charities may find different routes to the same end. Our experience shows that, whatever its size and activities, trustees can use these Hallmarks as a means of reviewing how their charity is performing and to identify the areas in which the charity is strong and those areas which need further development.

Compliance with the law is an integral part of good governance and effective performance. This guidance does not attempt to set out all the legal requirements that apply to charities and charity trustees. Any elements of Hallmarks that are marked with the symbol **L** must be complied with as these are legal requirements. Detailed guidance on particular areas of legislation and charity administration can be found through our website.

B3. What about other codes and standards?

There are a number of other codes and standards of good practice that charities may choose to follow, or may be expected to follow because they deliver particular types of services, or as a condition of membership of an umbrella body. Some of the other codes and standards that charities may follow are mentioned in section E of this guidance. The Code of Governance (Good Governance: a code for the voluntary and community sector) is one of these and is endorsed by the Commission. This guidance and the Code are intended to be complementary.

If your charity follows another code or standard, it may already be demonstrating some or all of the Hallmarks. However, you may wish to consider whether there are aspects of the Hallmarks that could supplement or strengthen your charity's approach to effective governance, management and operation.

B4. 'Must' and 'should' what we mean

In our guidance, where we use 'must' we mean it is a specific legal or regulatory requirement affecting trustees or a charity. Trustees must comply with these requirements. To help you easily identify legal or regulatory requirements we have used the **L** symbol next to the relevant bullet points.

We use 'should' for items we regard as minimum good practice, but for which there is no specific legal requirement. Trustees should follow the good practice guidance unless there is a good reason not to.

We also offer less formal advice and recommendations that trustees may find helpful in the management of their charity. As the Hallmarks are not intended to be prescriptive, most of the bullet points under each Hallmark fall within this category of advice rather than legal or regulatory requirements, unless otherwise indicated.

B5. Previous guidance

This guidance replaces the previous version of *The Hallmarks of an Effective Charity* (CC60), revised and presented in our new house style. As well as updating the Introduction, the Hallmarks themselves have been redefined in order to clarify the overarching principles that an effective charity will want to adhere to. For example, we have drawn together good financial practice points to create a new Hallmark 'Financially sound and prudent'.

If you want more copies of this guidance, please note the new order code, CC10.

B6. Some technical terms used

In this guidance:

Activities means anything done using resources belonging to the charity or under its control, and include all of its work and services.

Beneficiary or beneficiaries: A legal term for a person or group of people eligible to benefit from a charity's work. The beneficiary group of a charity will be defined in the charity's governing document. Beneficiaries may sometimes be called clients or service users.

CRB means the Criminal Records Bureau which exists to help organisations identify people who are unsuitable for certain types of work, especially work involving access to or contact with children and other vulnerable members of society. It can make 'Disclosures' of any criminal, police or similar records.

Governing document means a legal document setting out the charity's objects or purposes and, usually, how it is to be administered. It may be a trust deed, constitution, memorandum and articles of association, conveyance, will, Royal Charter, Scheme of the Commission or other formal document.

Impact means the change, effect or benefit that the charity's services and activities have on wider society. It is often long term, broad and sustainable and can be positive or negative, intended or unintended.

Indicators are well-defined, easily measurable information, which show how the charity is performing.

Mission or mission statement: A term used by many charities to describe why they exist and what impact they want to have. A mission statement can:

- provide an explanation of the charity's purposes in everyday language;
- help to communicate the charity's ethos and values; and
- provide a focus for strategic planning by defining the particular outcomes or goals that the charity wants to achieve.

A charity's mission (or mission statement) must be consistent with, and not wider than, its purposes.

Purposes (sometimes called objects) are the legal charitable purposes for which a charity exists or the things that it was set up to achieve as set out in its governing document. The purposes may be worded quite broadly and expressed in legal language. They direct (and consequently restrict) how the charity's assets must be used.

Outcomes are the changes, benefits, learning or other effects that happen as a result of the charity's services or activities. (Outcomes are distinguished from **outputs** - the activities, services and products that the charity provides. Outputs show the volume of work undertaken by the charity rather than its results.)

Trustee means a **charity trustee**. **Charity trustees** are the people who are responsible for the general control of the management of the administration of the charity. In the charity's governing document they may be collectively called trustees, the board, managing trustees, the management committee, governors or directors, or they may be referred to by some other title.

The Hallmarks at a glance

Hallmark 1: Clear about its purposes and direction

An effective charity is clear about its purposes, mission and values and uses them to direct all aspects of its work.

Hallmark 2: A strong board

An effective charity is run by a clearly identifiable board or trustee body that has the right balance of skills and experience, acts in the best interests of the charity and its beneficiaries, understands its responsibilities and has systems in place to exercise them properly.

Hallmark 3: Fit for purpose

The structure, policies and procedures of an effective charity enable it to achieve its purposes and mission and deliver its services efficiently.

Hallmark 4: Learning and improving

An effective charity is always seeking to improve its performance and efficiency, and to learn new and better ways of delivering its purposes. A charity's assessment of its performance, and of the impact and outcomes of its work, will feed into its planning processes and will influence its future direction.

Hallmark 5: Financially sound and prudent

An effective charity has the financial and other resources needed to deliver its purposes and mission, and controls and uses them so as to achieve its potential.

Hallmark 6: Accountable and transparent

An effective charity is accountable to the public and others with an interest in the charity (stakeholders) in a way that is transparent and understandable.

D

The Hallmarks

Hallmark 1: Clear about its purposes and direction

An effective charity is clear about its purposes, mission and values, and uses them to direct all aspects of its work.

In order to demonstrate this, the charity:

- **L** ensures that its mission and planned activities are within the purposes set out in its governing document;
- has a clear idea of its mission, and the strategies and steps that it will take to achieve it, set out in written documents that are regularly reviewed, giving the charity focus, direction and clarity;
- is able to explain how all of its activities relate to and support its purposes, strategy and mission, and benefit the public;
- regularly reviews whether the charity's purposes as set out in its governing document are up to date and relevant to the needs of its beneficiaries;
- **L** is independent and recognises that it exists to pursue its own purposes and not to carry out the policies or directions of any other body;
- considers future sustainability – balancing what is needed now with what will be needed in the future.

Hallmark 2: A strong board

An effective charity is run by a clearly identifiable board or trustee body that has the right balance of skills and experience, acts in the best interests of the charity and its beneficiaries, understands its responsibilities and has systems in place to exercise them properly.

In order to demonstrate this, the charity:

- **L** ensures that the trustee body is constituted in accordance with the governing document;
- identifies the mix of skills, knowledge and experience necessary for the efficient and effective administration of the charity and ensures that the recruitment and appointment of new trustees provides adequate opportunities for re-assessing and achieving that mix;
- has a trustee body that is the right size for the charity – large enough to include the skills and experience needed to run the charity effectively, but small enough to allow effective discussion and decision making;
- has a clear understanding of the respective roles of the trustee body and staff with role descriptions for trustees and charity officers (such as the Chair and Treasurer);
- ensures that the charity's committees, staff and agents have clear and appropriate delegated authority to carry out their designated roles in delivering the charity's purposes. It also has systems in place to monitor and oversee the way in which delegated powers are exercised;
- **L** undertakes all appropriate checks to ensure that a prospective trustee is both eligible and suitable to act in that capacity. (For some charities there may be a legal requirement to seek CRB disclosures for potential (and serving) trustees);
- identifies and meets the individual induction, training and development needs of trustees and has in place a framework for evaluating board and trustee performance;
- **L** ensures its trustees understand that they must act only in the charity's interests and that any conflicts of interest are identified and managed;
- **L** identifies and complies with relevant legislation and takes professional advice where necessary.

Hallmark 3: Fit for purpose

The structure, policies and procedures of an effective charity enable it to achieve its purposes and mission and deliver its services efficiently.

In order to demonstrate this, the charity:

- regularly reviews its governing document to ensure that it is up to date and that the trustees have the powers that they need in order to achieve the charity's purposes and to manage its resources effectively;
- takes appropriate steps to protect its reputation in all aspects of its work, especially in its dealings with beneficiaries and others with an interest in the charity;
- implements policies and procedures to ensure that all vulnerable beneficiaries are protected from abuse;
- regularly reviews and assesses the risks faced by the charity in all areas of its work and plans for the management of those risks;
- regularly reviews its structures, policies and procedures to ensure that they continue to support, and are adequate for, the delivery of the charity's purposes and mission; this includes policies and procedures dealing with board strategies, functions and responsibilities; good employment practices and the encouragement and use of volunteers;
- recognises, promotes and values equality and diversity in beneficiaries, staff and volunteers, and in all aspects of its activity;
- considers whether collaborations and partnerships (including the possibility of a merger) with other organisations could improve efficiency, the use of funds and the better delivery of benefits and services to beneficiaries.

Hallmark 4: Learning and improving

An effective charity is always seeking to improve its performance and efficiency, and to learn new and better ways of delivering its purposes. A charity's assessment of its performance, and of the impact and outcomes of its work, will inform its planning processes and will influence its future direction.

In order to demonstrate this, the charity:

- has considered how to identify, measure and learn from the charity's achievements, impacts and outcomes, including the positive and negative effects that it has on beneficiaries, others with an interest in the charity and the wider community;
- sets achievable targets and indicators against which success and improvement is measured and evaluated based on the purposes of the charity, the needs of its beneficiaries, the quality of its services and the resources available;
- welcomes and acts upon feedback (positive as well as challenging) from its beneficiaries and other people with an interest in the charity about the services it provides and the areas where improvements could be made;
- looks at and assesses innovative and imaginative ways of working towards achieving its purpose and aims;
- identifies emerging trends in the environment in which it operates and uses this information as part of its planning processes;
- identifies and uses opportunities to influence the environment in which it works to be more conducive to its mission and purposes, following the law and good practice when campaigning or lobbying;
- is not complacent but is engaged in a process of continual improvement, using techniques and tools best suited to its size and activities, such as recognised quality systems and benchmarking, in order to improve its own future performance;
- is ready to share good practice with others.

Hallmark 5: Financially sound and prudent

An effective charity has the financial and other resources needed to deliver its purposes and mission, and controls and uses them to achieve its full potential.

In order to demonstrate this, the charity:

- has policies to control and manage its reserves, investments and borrowing, taking professional advice where needed;
- integrates financial planning with wider organisational planning and management, ensuring that funds are available when the charity needs them and are used in the most effective way to the benefit of the charity;
- ensures financial sustainability by managing cash flow and monitoring and reviewing financial performance during the year, taking timely corrective action where needed;
- considers the sources of its income and has a strategy in place to raise the funds it needs - diversifying its sources of income as far as possible;
- reviews its fundraising strategies and activities to ensure that they comply with good-practice standards, taking account of any relevant ethical issues;
- is aware of the financial risks involved with existing and new ventures and manages the risk of loss, waste and fraud by having robust financial controls and procedures in place;
- structures the charity's activities in a tax efficient way and minimises the operational risk to the charity from trading activities;
- **L** prepares its Annual Report and accounts in accordance with good practice requirements, and fulfils the legal requirements for filing in a timely fashion.

Hallmark 6: Accountable and transparent

An effective charity is accountable to the public and others with an interest in the charity (stakeholders) in a way that is transparent and understandable.

In order to demonstrate this, the charity:

- **L** complies with its legal obligations (and best practice), as set out in the Statement of Recommended Practice (SORP), to produce annual accounts and a report which includes an explanation of what the charity has done for the public benefit during the year;
- explains in its Annual Report the extent to which it has achieved its charitable purposes in a way that people with an interest in the charity can understand;
- has well-publicised, effective and timely procedures for dealing with complaints about the charity and its activities. These should explain how complaints and appeals can be made, and give details of the process and likely timescales;
- can show how it involves beneficiaries and service users in the development and improvement of its services; the contribution may have been by way of the appointment of beneficiaries as trustees or their involvement through discussion, consultation or user group input;
- has a communications plan which ensures that accurate and timely information is given to everyone with an interest in the work of the charity, including the media, donors and beneficiaries.

Further information and advice

E1. Key Charity Commission Publications

The Charity Commission produces a wide range of publications and website guidance giving information and advice to charity trustees and the general public on a number of issues relating to charity law and regulation. The full list of publications is on our website or in our booklet *Charity Commission Publications (CC1)*, but the list below is a selection based on some of the issues identified in this guidance.

We have also listed a selection of other organisations which can be used as sources of information.

- **Guidance (Publications and Guidance page on www.charitycommission.gov.uk)**
Charities and Risk Management
Child Protection
Conflicts of Interest
- **Charity Commission Publications and Order Codes (Publications and Guidance page on www.charitycommission.gov.uk)**
The Essential Trustee: What you need to know (CC3)
Internal Financial Controls for Charities (CC8)
Political Activities and Campaigning by Charities (CC9)
Charity Reporting and Accounting: The essentials April 2008 (CC15a)
Charities and Fundraising (CC20)
Finding New Trustees: What charities need to know (CC30)
Complaints about Charities (CC47)

To obtain copies of these or any other of our publications you can either:

- view and print them from our website www.charitycommission.gov.uk;
- order during opening hours – Monday to Friday 08:00-20:00 and 09:00-13:00 Saturdays by telephoning **0845 300 0218**; or
- write to **Charity Commission Direct, PO Box 1227, Liverpool, L69 3UG.**

E2. Other sources of useful information

Codes and standards

Good Governance: A code for the voluntary and community sector ('the Code')

The Code was produced in partnership between acevo, CTN, NCVO and ICSA (for details see below under Organisations) with advice and support from the Commission and input from other sector bodies. It was produced by the sector, for the sector, and is designed to clarify the principles behind good governance and to help the sector in decision making, accountability and the work of boards.

The Code was promoted through the National Hub of Expertise in Governance. Since the closure of the Hub, the original founding group have resumed responsibility for promoting and developing the Code. You can download copies of the code from:

www.ncvo-vol.org.uk/workarea/linkit.aspx?LinkIdentifier=id&ItemID=3837

OR

www.trusteenet.org.uk/resources/2047

You can also order copies of the Code from NCVO (there is a charge).

The National Occupational standards (NOS) for Trustees and Management Committee Members

The NOS is available on the website shown below. The NOS complements the Code of Governance and is aimed at individual trustees whereas the Code and the Hallmarks are aimed at trustee boards as a whole and the organisations they govern.

Website: www.governancehub.org.uk

Key terms

The 'Charities Evaluation Services' (full details below) website contains a glossary of key terms which charities might find useful when looking at other codes and standards.

Organisations

Association of Charitable Foundations (ACF)

ACF is the leading membership association for grant-making trusts and foundations in the UK. We provide help and support for charitable trusts and foundations, represent their interests and promote good practice in grant-making.

Association of Charitable Foundations (ACF) Central House

14 Upper Woburn Place
London WC1H 0AE
Tel: 020 7255 4499
Email: acf@acf.org.uk
Website: www.acf.org.uk

Association of Chief Executives of Voluntary Organisations (acevo)

acevo is a professional organisation for chief executives in the voluntary sector. It offers them support, advice and development opportunities with the aim of raising standards within the voluntary sector by enhancing the professionalism and expertise of chief executives.

acevo

1 New Oxford Street
London WC1A 1NU
Tel: 0845 345 8481
Email: info@acevo.org.uk
Website: www.acevo.org.uk

Black Training and Enterprise Group (BTEG)

BTEG is a national charity working to improve opportunities and outcomes for black and minority ethnic people and communities. Its services include advice and support, development of standards, information, lobbying, research and training.

Black Training and Enterprise Group

2nd Floor, Lancaster House
31-33 Islington High Street
London N1 9LH
Tel: 020 7843 6110
Email: info@bteg.co.uk
Website: www.bteg.co.uk

Charities Evaluation Services (CES)

CES is a charity established to increase the effectiveness of the voluntary sector by developing its use of evaluation and quality systems and can help with setting aims and objectives, clarifying intended outcomes and impact, training, advice and support with quality systems (such as PQASSO) and monitoring and evaluation.

Charities Evaluation Services

4 Coldbath Square
London EC1R 5HL
Tel: 020 7713 5722
Email: enquiries@ces-vol.org.uk
Website: www.ces-vol.org.uk

Charity Finance Directors' Group (CFDG)

CFDG is a membership organisation which specialises in helping charities to manage their accounting, taxation, audit and other finance related functions. The Charities Resource Network is the online information service of the CFDG.

Charity Finance Directors' Group

3rd Floor
Downstream Building
1 London Bridge
London SE1 9BG
Tel: 0845 345 3192
Email: info@cfdg.org.uk
Website: www.cfdg.org.uk

Charity Trustee Networks (CTN)

CTN is the national organisation for trustees, facilitating networks and providing resources and support to help trustees increase their confidence and effectiveness.

Charity Trustee Networks

3-4 Frensham Suite
Friary Court
13-21 High Street
Guildford GU1 3DG
Tel: 01483 230280
Email: info@trusteenet.org.uk
Website: www.trusteenet.org.uk

Directory of Social Change (DSC)

DSC promotes positive social change and provides a wide range of resources for trustees including training and publications.

London

24 Stephenson Way
London NW1 2DP

Tel: 0845 077 7707

Email: (Training and Events) London:
training@dsc.org.uk

Liverpool: north@dsc.org.uk

Website: www.dsc.org.uk

Liverpool

Federation House
Hope Street
Liverpool L1 9BW

Fundraising Standards Board

The FSB handles public complaints about how its members raise money. Members adhere to a set of codes of conduct and they must sign-up to an independent, robust and transparent complaints process.

Fundraising Standards Board

Hampton House
20 Albert Embankment
London SE1 7TJ

Tel: 0845 402 5442

Email: info@frsb.org.uk

Website: www.frsb.org.uk

The Institute of Chartered Secretaries and Administrators (ICSA)

The professional body for chartered secretaries. ICSA promotes best practice and provides guidance on good governance. ICSA offers a professional qualification covering business, company law, corporate governance, management, finance/accounting, administration and company secretarial practice.

ICSA

16 Park Crescent
London W1B 1AH

Tel: 020 7580 4741

Fax: 020 7323 1132

Email: info@icsa.co.uk

Website: www.icsa.org.uk

Institute of Fundraising

This is the professional body that represents fundraisers in the UK. Its mission is to support fundraisers through leadership, representation, standard-setting and education to deliver excellent fundraising.

Institute of Fundraising

Park Place

12 Lawn Lane

London SW8 1UD

Tel: 020 7840 1000

Fax: 020 7840 1001

Website: www.institute-of-fundraising.org.uk

National Association for Voluntary and Community Action (NAVCA)

Local charities can use the NAVCA website to find their nearest local infrastructure organisation (LIO). NAVCA is the national voice of local third sector infrastructure in England. Their members work with 164,000 local third sector groups and organisations that provide community services, regenerate neighbourhoods, promote volunteering and tackle discrimination in partnership with local public bodies.

National Association for Voluntary and Community Action

The Tower

2 Furnival Square

Sheffield S1 4QL

Tel: 0114 278 6636

Email: navca@navca.org.uk

Website: www.navca.org.uk

National Council for Voluntary Organisations (NCVO)

NCVO provides a wide range of information and support services for those working in the voluntary sector, including a publication on inducting and supporting trustees.

National Council for Voluntary Organisations (NCVO)

Regents Wharf
8 All Saints Street
London N1 9RL
Tel: 020 7713 6161
Fax: 020 7713 6300
Helpdesk: 0800 2798 798
Email: ncvo@ncvo-vol.org.uk
Website: www.ncvo-vol.org.uk

The Compact

The Compact is an agreement between Government and the voluntary and community sector in England. The Compact and its Codes of Practice provide a useful set of principles for charities to follow when involved in working relationships (funding or otherwise) with government. If a charity follows (and, ideally, cites) these principles in any relations it has with government, the charity is on much stronger ground in requiring government adherence in return. The Commission for the Compact is an independent body responsible for overseeing the Compact.

Commission for the Compact

77 Paradise Circus Queensway
Birmingham B1 2DT
Tel: 0121 2375900
Email: Info@thecompact.org.uk
Website: www.thecompact.org.uk

Wales Council for Voluntary Action (WCVA)

WCVA represents the interests of, and campaigns for, voluntary organisations, volunteers and communities in Wales. It provides a comprehensive range of information, consultancy, funding and management and training services which include a dedicated governance website, conference and newsletter. Charities can use the WCVA website to find their nearest County Voluntary Council (CVC).

Wales Council for Voluntary Action

Baltic House
Mount Stuart Square
Cardiff CF10 5FH
Tel: 029 2043 1700
Helpline: 0870 607 1666
Website: www.wcva.org.uk
Governance website: www.trusteewales.org.uk

Notes

This publication can also be accessed at the Charity Commission's website: www.charitycommission.gov.uk

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Charity Commission

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Typetalk: **0845 300 0219**

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