

How Are Charities Accountable?

A study of the approaches to governance and accountability developed by twelve major charities in Britain

Age Concern England, Alzheimer's Disease Society, Anchor – Working with Older People, Crime Concern, NCH Action for Children, National Council for One Parent Families, Oxfam, People's Dispensary for Sick Animals, Royal Opera House, Scope, Shelter, Yorkshire Metropolitan Housing Association.

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Contents

Acknowledgements	vii
Introduction	1
Methodology	6
PART I	9
What is charity governance?	11
Why is charity governance reviewed?	14
How are charity trustees recruited?	21
How are charities accountable?	28
Who are the stakeholders?	37
The Charity Commissioners – governance and accountability	39
Charities’ politics and campaigning	48
The relationship between trustees and executive management	53
What are the risk of the new environment?	59

PART II	63
Age Concern England	65
Alzheimer’s Disease Society	69
Anchor - Working With Older People	72
Crime Concern	76
NCH Action for Children	87
National Council for One Parent Families	81
Oxfam	83
People’s Dispensary for Sick Animals	87
Royal Opera House	90
Scope (formerly The Spastics Society)	95
Shelter	98
Yorkshire Metropolitan Housing Association	100
PART III	103
Observations and recommendations on governance and accountability	105
Recommendations on general themes	107
Recommendations on trustees	108
Recommendations on governance	110
Recommendations on accountability	112
Notes	114

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How are charities accountable?

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Introduction

It is timely to examine how some major charities approach governance and accountability. Many charities have become vast multimillion pound national and even international conglomerates. Increasingly they operate under contracts with central or local government, or intermediate non-elected local bodies such as Training and Enterprise Councils and National Health Service Trusts in order to deliver public goods. Others, including Housing Associations, although proud of their history as independent organisations and part of the voluntary sector, have become the main vehicles for the use of public money to construct and manage social housing.

There have been recent changes in the legislation affecting charities, most notably the Charities Acts of 1992 and 1993 and 1993. Charities must comply with the Charity Commissioners' disclosure, reporting and accounting requirements and comply with the law on such matters as trading, political activities and fundraising.

Also, many charities and voluntary organisations are companies limited by guarantee and thus bound by the Companies Acts of 1985 and 1989.

Despite this, surprisingly little is known about how charities are governed. The diversity and complexity of structural forms among charities is much greater than within either the private or the public sectors. There is no single set of rules and conventions which governs the relationship between donors, members, trustees and management

of charities to match that between shareholders and directors in the private sector, or the electorate, councillors and officers in the public sector. Not only are the functions different, as they are between different commercial companies, but so too are the structural forms.

The sector as a whole is not beset with scandals. Frauds such as the Salvation Army's missing millions are relatively rare. So was the curious case of the Sherburn Hospital charity which was found to be run for the personal benefit of the two principal employees and their families who had spun a web of interest, patronage and nepotism.

The rarity of scandals might be the result of good governance, effective regulation, ever diligent trustees and a dominant culture of honesty. Alternatively, it might be because of luck and poor systems to detect fraud or impropriety.

Yet much public interest in the governance of private sector companies has been provoked by scandals. How might the Guinness shareholders have been better protected during a fierce takeover battle? How did the Mirror Group pensioners become pawns in a much bigger game? Whatever happened a BCCI?

It was in the light of such scandals that the Cadbury Committee was established and recommended that the boards of PLCs 'should include non-executive directors of sufficient caliber and number for their views to carry significant weight in the boards' decisions'.¹ Also the Nolan Committee noted that these members 'should bring an independent judgement to bear on issues ... including standards of conduct'.² The strengthening of the non-executive director was seen as one of the means of exercising restraint on what might otherwise be the overweening power of the executive directors. Similarly, the Greenbury Committee proposed new guidelines on directors' remuneration in the wake of what was widely perceived to be boardroom greed.

In the public sector, the Nolan Committee was formed following public alarm about MPs' extra-Parliamentary incomes, 'cash for questions', the ease with which Ministers move from Whitehall to lucrative City jobs and the patronage involved in thousands of Ministerial appointments to the boards of quangos.

Many of the recommendations in the Nolan Committee's first report have been adopted, including the appointment of a Parliamentary Commissioner for Standards and a Commissioner for Public Appointments for those posts on the boards of Non-Departmental Public Bodies which are in the gift of Ministers.³

In the summer of 1995 the Nolan Committee moved on to consider standards of conduct in what it defined as local public spending bodies (LPSBs). These are Further and Higher Education bodies including universities, Grant Maintained Schools, Training and Enterprise Councils, Local Enterprise Companies in Scotland and Housing Associations.

Together, the subjects of Nolan's inquiry spend £15bn of public money each year, have largely non-elected boards and are responsible for the purchase and delivery of public goods which are used by a large proportion of the population. Nolan respects the considerable diversity of the LPSBs and their different functions, histories, cultures and sizes, but seeks to contrast and compare the standards of conduct and some aspects of governance. It particularly addresses the appointment and accountability of board members, the role of boards in relation to the officers and staff and safeguards in respect of conflicts of interest.⁴

Governance in the charity sector is now being addressed as one part of the brief of the independent Commission on the Future of the Voluntary Sector which was established by the National Council for Voluntary Organisations and is chaired by Professor Nicholas Deakin.⁵ This commission is not driven by scandals, but reflects on those which are brought to its attention. Significantly, the NCVO estimates that this sector is responsible for revenue spending of approximately £13bn per year, rather similar to the expenditure of the LPSBs which are subject to review by the Nolan Committee.

The research described in this report is deliberately very modest. It examines the approaches to governance and accountability which are adopted by a dozen major charities. The purpose is not to pass judgement, contrast or compare, or award points, but to describe several very different models, consider what lessons might be learned, applied elsewhere and contribute to a well-informed debate.

Throughout the research Mike Hudson's definitions of governance and management have been used. Hudson describes governance as 'the board's responsibility. It is about ensuring that the organisation has a clear mission and strategy, but not necessarily about developing it. It is about ensuring that the organisation is well managed but not about managing it. It is about giving guidance on the overall allocation of resources but is less concerned with the precise numbers. Governance is about taking responsibility for the organisation's performance, but not about meddling with the detail of the performance measurement system. Governance is ultimately concerned with providing insight, wisdom and good judgement. Boards have to find ways of providing this, which move beyond setting abstract policies that are full of good intentions but are of little practical use.' Hudson distinguishes this from management which is described as 'a staff responsibility. Staff are responsible for implementation of strategy agreed by the board. They are responsible for turning the board's intentions into action and for administering the system and procedures needed to get results.'⁶

The role of stakeholders is an important issue when considering the governance and accountability of charities. This is not least because they are a more complex and diverse group than the stakeholders of private sector companies. Also because even among the trustees and managers of charities, who are themselves stakeholders, there is often uncertainty about the identity of all the other stakeholders.

This confusion is explained by Batsleer and Paton: 'Obviously voluntary organisations have always acknowledged the existence of some competing stakeholders and interests in the conduct of their affairs. That *de facto* acknowledgement, however, has usually been accompanied by an explicit or implicit ranking of their standing – and, in some cases, even of their legitimacy – in influencing the overall goals, policy and governance of the organisation.' Because of this Batsleer and Paton argue that '...classic formulae such as 'the management committee makes policy which is implemented by the professional staff or, we all serve the interests of the clients/cause' have provided a series of powerful filters – or distorting lenses – through which different sets of inter-

ests have had to be perceived and expressed. The upshot has been that often it is difficult for the interests of such major categories of effective stakeholders as funders, donors or professional staff to be adequately incorporated into the processes of governance and goal setting and policy formulation.⁷⁷

Methodology

The twelve organisations were chosen because they were thought likely to have developed and to practise widely different approaches to governance and accountability. While their modes of governance are not viewed as representative of their parts of the sector, they would reflect the complexities and divergence of approaches across the charity world. The selection aims to reflect not only the different functions of the organisations but also the wide range of cultures, ages, styles and public profiles from which they are drawn.

The sample of organisations are all household names. They are drawn from different sectors: overseas aid and development; disabilities; animal welfare; poverty and family welfare; services for children; housing; performing arts and medical research. Two Housing Associations are included because these demonstrate that there is almost as much diversity of approach to governance and accountability within the field of social housing, which forms the largest grouping within the charity sector, as there is between all the other examples.

In terms of structure the organisations range from bodies with a large membership and democratically elected boards of trustees to self-perpetuating oligarchies with trustees selected by curiously opaque processes.

With one exception, Yorkshire Metropolitan Housing Association, all the organisations are at least national in terms of activities and fundraising. The Yorkshire Metropolitan Housing Association is also

an exception in that its main activity, the provision of social housing, is not controlled by a registered charity. It is none the less a not-for-profit voluntary organisation and an industrial and provident society which is regulated by the Housing Corporation and the Registrar of Friendly Societies rather than by the Charity Commissioners. It has a management committee comprising volunteers who receive no remuneration. There is also a related Yorkshire Metropolitan Housing Foundation which is a registered charity. In most respects the entire organisations is indistinguishable from a charity for the purposes of its stakeholders. It is thus reviewed and compared with charities in this report.

The annual revenue incomes of the organisations studied range from £100m to £1m. Together these dozen charities account for a total annual income of £453m, employing 18,500 staff and countless volunteers.

The charities which agreed to take part in this study are:

Age Concern England

Alzheimer's Disease Society

Anchor – Working with Older People

Crime Concern

NCH – Action for Children

National Council for One Parent Families

Oxfam

People's Dispensary for Sick Animals

Royal Opera House

Scope (formerly The Spastics Society)

Shelter – The National Campaign for Homeless People

Yorkshire Metropolitan Housing Association

Part II of this report contains a brief pen picture of each of these charities. This includes information about the origins of each of them, key points in their history, the formal aims and objectives, the composition of governing bodies, governance structures and recent income and expenditure accounts.

The research included a review of the governing instruments of each of the charities: the Memorandum and Articles of Association, Charitable Objects, Codes of Conduct, Standing Orders and Terms of Reference of Boards and Executive Committees. Other material such as Annual Reports and material presented to members, donors and other interested parties has also been studied.

In addition to the examination of the documentary material, the non-executive Chairmen of the boards and the Chief Executives have also been interviewed separately. Semi-structured interviews have been used to elicit information about approaches to governance and accountability and to explain why and how each organisation has developed its particular approach to the subject. This has been particularly significant as several of the organisations are presently undertaking far-reaching internal reviews and sometimes questioning structures and arrangements which have been in place for many years.

No attempt has been made to test the assertions of executive and non-executive management against the practical experience of users or beneficiaries of each charity's services. This was outside the remit agreed with the major funders and with the charities which agreed to take part in the study.

PART I

The first part of this report describes a view of charity governance, the reasons for its review by particular organisations and explains their approaches to such subjects as the recruitment of trustees and members of their boards. Observations are made about the way charities are regulated by the Charity Commissioners and comments on some of the little known powers which can be exercised by the regulatory authority. The views of some of the charities concerning 'political' and 'campaigning' activities are commented upon, as are the complex and sometimes tense relationships between the executive management and the trustees or board of directors.

The final section of Part I contains observations on the new environment in which some charities are operating, including the 'contract culture'. This sets the context in which the brief reports about each of the participating organisations can be considered.

What is charity governance?

When the Cadbury Committee reviewed the 'Financial Aspects of Corporate Governance',⁸ it identified an all-powerful group of executive directors dominating the board of a PLC as inimical to good governance. To counter this, Cadbury recommended that 'the caliber and number of non-executive directors on a board should be such that their views will carry significant weight in the board's decisions. To meet recommendations on the composition of subcommittees of the board, all boards will require a minimum of three non-executive directors ... additionally two of the three should be independent ... of management and free from any business or other relationship which could materially interfere with the exercise or other independent judgement.' (The subcommittees referred to are the audit and nominations and remuneration committees which Cadbury recommends should comprise non-executive directors). A well-informed group of non-executive directors is able to question and if appropriate challenge the executive directors who effectively control all the information received by the board.

In terms of the governance of charities, it is necessary to begin by appreciating that they are an upside down version of the world viewed by Cadbury. In charities all the trustees are non-executive directors who must be unremunerated, have no related pecuniary interests and are part-time. They are limited in the degree to which they can delegate their powers to the executive management and are formally

accountable for every aspect of the conduct of the organisation. Despite this they are dependent on the senior management team, or perhaps only a single Chief Executive, who controls all the information received by the board and is responsible for implementing the policies and decisions of the non-executive directors.

Prompted by the Charities Acts of 1992 and 1993, many trustees have been made aware, in some instances for the first time, that they are legally liable for the charities they represent. Non-executive directors are now more likely to be held to account by the public generally, by donors and by beneficiaries. This causes tensions and an understandable desire for individual trustees to probe into the interstices of the charities for which they are responsible in order to satisfy themselves that all is well.

While the boundary for trustee action between matters of governance and matters of management cannot be rigidly drawn, it is crucially important that trustees do not cross that boundary and engage in operational matters without being completely satisfied that it is absolutely necessary for them to do so.

John Carver, one of the leading thinkers on the governance and management of charities, argues that ‘The most important work of any governing board is to create ... the reason for organisational existence ... The only justifiable reason for organisational existence is the production of worthwhile results. Worthwhile results always relate to the satisfaction of human need. Whose needs, which needs and what constitutes ‘satisfaction’ are the unending, subjective quandaries confronting a board. Resolving the ... value dilemmas inherent in these questions is the very heart of leadership in governance.’⁹

John Carver also argues that charities should have a complete separation of board from management, with only a non-trustee Chief Executive acting as go-between. Despite what has become known as the ‘Carver Model’, he acknowledges the duty of trustees to be, at the very least well-informed. ‘The board must have ‘control over’ the complexity and details of staff operations. It is also important for a board to be ‘free from’ the complexity and details of staff operations ... It is common to sacrifice one need for the other. Some boards relinquish

control to be free from details or to grant the Chief Executive freedom from board intrusion; such boards may be guilty of rubber-stamping. Others may forego freedom in order to control many details; such boards may be guilty of meddling.¹⁰

Andrew Hind contrasts the effects of goal differences on the governance of the charity and commercial sectors. ‘Shareholders find it difficult to identify a way in which managers can be held properly accountable. I believe that charity trustees have an even harder task than company shareholders and non-executive directors when it comes to governing their organisations. The task is not made any easier by the fact that there is no readily quantifiable way of assessing a charity’s ongoing effectiveness. There is no equivalent measure to the company’s earnings per share which keeps both shareholders and directors focused on the bottom line on an almost daily basis. The difficulty of assessing outcomes in areas where information is often of a qualitative rather than a quantitative nature tends to drive trustees away from concentrating on issues at a strategic level and into an involvement with issues which are of an operational nature.’¹¹

The burden of responsibilities on trustees to control their charity is emphasised in the Annual Report of the Charity Commissioners for 1993 when it states that ‘There is no doubt that most charity trustees take on their responsibilities with the very best of motives, but they sometimes do so with a limited appreciation of what those responsibilities entail Charity trusteeship is a serious responsibility requiring a commitment of care, time and effort. Trustees must be sure that they are control of their charity. We found in some cases that an absence of direction to employees, unclear responsibilities, improper delegation and lack of adequate internal control had the effect of impairing trustee control.’¹²

Traditionally, being invited to act as charity trustee was regarded as an honourable but relaxed job – worthy and interesting but not too demanding. With the impact of recent legislation and increasing public interest in the ethical conduct of all aspects of charities, the honour is now tempered with some very onerous responsibilities.

Why do charities review their governance?

Most of the charities which have contributed to this study have had cause to review their approaches to governance in recent years. There are several reasons for such reviews. The first among these has been the pressure of recent legislation. The Charities Acts of 1992 and 1993 and the attendant media coverage have caused many trustees to look more critically at their charities in order to satisfy themselves that the systems and the checks and balances are in place to enable them to discharge their responsibilities. The second reason is that although scandals are rare in the charity sector, those which have occurred and the publicity around them have rightly caused non-executive directors of charities and their management to ask the question: could it happen here or would I know if something similar is going on?

Inquiries into aspects of the conduct and governance of other bodies carried out by the Cadbury Committee on the financial aspects of corporate governance, the Greenbury Committee on the remuneration of company directors and the Nolan Committee's inquiry into standards of conduct in public life, have the effect of stimulating closer interest in the way all organisations including charities are run.

Both trustees, as the internal watchdogs, and the executive management are more likely to enquire about the governance of charities. At the same time, beneficiaries, donors and other stakeholders are encouraged to question the conduct of charities, who manages them, how are trustees appointed, and to whom a charity is accountable.

Such questions are more likely to be raised in the contemporary climate, instead of charity governance being taken for granted or merely assumed to be beyond reproach because of the good name of the charity and the impeccable character of its trustees.

The forms of governance and policy information within charities often owes much to the underlying conventions, culture and the values of the dominant stakeholders. These can inhibit the emergence of radical approaches to the review of governance and decision making which is matched to the objectives and purposes of each charity and the environment in which it operates.

There are two further factors which an observer of charities will recognise to be triggers for often far-reaching reviews of governance. One of these is when there is a crisis or a scandal which compels the trustees to investigate and even to assume responsibility for the executive management of the organisation during a period of reconstruction.

Secondly, it is evident that a frequent cause for a charity's governance to be reviewed is when a new Chairman or Chief Executive is appointed. The selection or election process is often such that a person will be chosen who has strong ideas about how the organisation should be run and what changes are necessary for greater success in the future.

One or more of these factors is present in each of the charities which have been considered during this research. Only two are commented upon in any detail in this section because they demonstrate both the need for review and the capacity to accomplish change successfully. These are the **Alzheimer's Disease Society** and **Oxfam**.

The **Alzheimer's Disease Society** was founded in 1979 by a small group of carers in order to provide information and support for others who also cared for people who suffered from various forms of dementia. Many of the early members were nurses who had cared for their husbands. It continued as a very small and largely informal body, run by and to some extent for a dedicated group of carers until the mid-1980s.

The need for the services provided by the society was increasingly widely recognised and bequests and donations were made to enable

the services to expand. In 1985 the Department of Health made a grant of £130,000 which was then nearly half the organisation's total annual income.

In 1987, as a result of a routine audit, the Department of Health wrote formally to the **Alzheimer's Disease Society** informing its committee that it had concluded that public funds were at risk as a result of wholly inadequate management controls. Two options were available: either to allow the society to be absorbed by **Age Concern England** which was very much larger, had well-established management systems and the confidence of the Department of Health, or to attempt the urgent crisis management and reconstruction of the society.

Dr Nori Graham, a distinguished psychogeriatric specialist, became the Chairman of the society and she persuaded George Cyriax, a businessman and person of independent means, to come to her aid as the Treasurer. It was immediately evident that the deeply committed people who had demonstrated the good will and capacity to set up the organisation did not have the skills necessary to manage it effectively as it had grown. Unsuitable people had been appointed, both public and privately donated money had not been adequately safeguarded, there were numerous committees and confused lines of accountability for decisions. Also, the society's branches in Scotland had already split away from the national parent body and the North East region was threatening to follow.

George Cyriax, who had not previously been a member of the society, approached the job like a company doctor. The few members of staff departed and all the committees except the board of trustees were stood down.

Within a few months the **Alzheimer's Disease Society** was reconstructed and a sound basis established for future development. The relationship with local branches was clarified and financial and legal controls centralised. The fragility of the society was understood by many members as well as by some beneficiaries and consequently the rapid pace of change was tolerated, despite the discomfort. It is significant that Nori Graham and George Cyriax contributed to be elected by the membership every year since 1987.

In six years the society grew from an annual income of £300,000 to £3m. As a result of very tight management it developed the capacity to handle new sorts of funding including contracts and to assess risks accurately and to develop its programmes effectively.

A great deal of the credit for the society's recovery in the early years of the crisis of 1987 is no doubt due to the efforts of George Cyriax. It is extremely fortunate that a person of his calibre was willing and able to develop not less than three days each week to the recovery programme. He and Nori Graham hired the right people and provided the clarity of role and responsibility which encouraged high standards of performance. As a result of this climate, other people, both trustees and employees have been able to contribute their own efforts to the society's development.

Harry Cayton was appointed Chief Executive in 1992 and the process of continuous improvement has been maintained. Since 1987 the society has doubled in size every two years. It now has an annual income of £8.84m and 470 staff, 413 of whom are employed in the provision of care services for those who suffer from dementia. Its 20,000 members and 180 branches are more closely involved and informed in policy development than many charities and the society's approach to governance is unusually well-defined and transparent.

Oxfam is more than ten times the size of the **Alzheimer's Disease Society** and has a totally different history and function. Its review of governance was not triggered by a crisis but by growing recognition that the structures which had gradually developed since **Oxfam** was founded in 1942 were not appropriate to the scale and complexity of its present activities.

The nature of the organisation is well summarised by Mark Suzman writing in the *Financial Times*: 'On any impartial ranking of challenging managerial jobs, running a £100m company that includes 840 outlets and joint ventures with 3,600 partners in more than 70 countries would probably rank pretty near the top. Add the fact that income is inconsistent and also includes donations, gifts and mixture of domestic and international government contracts with complex requirements; that the company is dependent on the goodwill of 30,000

volunteers who could cease work without notice; and that market fluctuations are such that the organisation requires a permanent capacity to double output at short notice, and you might have some idea of the tasks facing **Oxfam**, the campaigning anti-poverty charity.¹³

Joel Joffe, Chair of the Council of **Oxfam** since 1995, a trustee since 1980 and one of the founding Directors of the life assurance company, Allied Dunbar, considers that it is much more difficult running **Oxfam** than any commercial organisation of equivalent size.

Oxfam's governing structure reflected its origins as a small charity and the informal character of its members. It had a Council of 50 trustees, an executive committee of 15 trustees and 16 committees and subcommittees on which trustees and executive management sat together to oversee every activity from grants made to 'partners' in Third World countries, to the management of **Oxfam's** charity shops and the personal function. **Oxfam's** Chief Executive, David Bryer, explains that quite apart from issues of governance it meant that simple management decisions were increasingly difficult to make and implement.

In 1991 a small group of trustees led by Joel Joffe, Chris Underhill and some senior managers began a fundamental review of the organisation's structure. 'The challenge was twofold: first how to harness the group's diverse range of activities into a cohesive structure, and second how to ensure satisfactory systems of monitoring and accountability were put in place to prevent fraud and ensure that resources were being deployed as effectively as possible.'¹⁴

As a result of the review the number of trustees on the Council was drastically reduced and most of the committees ceased to function. Trustees would no longer be engaged in day to day management but concentrate on developing and then monitoring the organisation's policy and strategic objectives. The Audit Committee has been retained and the Nominations Committee became the Recruitment and Development Committee with responsibilities, *inter alia*, for management and trustee succession.

Despite this substantial shift of emphasis, Joel Joffe insists that trustees should be visible and thoroughly understand the complex

workings of the organisation. Trustees are encouraged to get out and see **Oxfam** programmes on the ground and photographs and brief CVs of all trustees are made widely available to staff, in **Oxfam** shops and to stakeholders.

Trustees are encouraged to focus on ensuring the effective deployment of resources, but not get involved in management. It is recognised that there is a present lack of management information about the impact of **Oxfam** programmes. It will thus be some time before trustees can concentrate on ends rather than means, but there is movement in this direction. This will be a process of evolution starting with a deliberate effort to conduct meetings in ways which are more oriented to results while not forgetting that trustees are seeking to satisfy themselves that resources are used effectively.

Oxfam is also developing a system of 'lead members', trustees who have special responsibility to the Council for keeping informed about the work of **Oxfam** which lies within an area of expertise. As Joel Joffe puts it, 'they are expected to acquire a more in-depth knowledge than is possible for other members of the Council. They are the 'eyes and ears of the Council within their special area'. They will be in consultation with staff during the drafting of a policy or a major paper on a topic relevant to their special area and take a lead role when Council debates such issues'. But, he explains that each lead member has no decision-making powers other than as a trustee acting with other trustees in Council. Also lead members are advisers to Council and their relationship to staff is as trustees rather than as advisers to them.

The lead member system has enabled **Oxfam** to continue to make beneficial use of some of the impressive body of expertise, including specialist Third World knowledge which it has attracted to membership of the Council over many years, while removing such trustees from involvement in operational management with the attendant fuzzy lines of communication.

Alongside these changes in governance **Oxfam** has also adopted a new approach to recruiting trustees to its slimmed down Council. While the previous system attracted many talented people, the process was particularly opaque. **Oxfam** now seeks a balance of trustees who

How are charities accountable?

have skills that are of value to the charity and reflect the wide range of its operations. They have developed a sophisticated selection procedure which includes identifying the particular skills needed and advertising for candidates to match these. As Joel Joffe explains, 'We don't want to end up with twenty businessmen or twenty volunteers. We need a diverse board that is supportive, effective and sets the agenda with clarity.'

How are charity trustees recruited?

The variety of means by which individuals become trustees of charities are almost as numerous as the number of charities there are. Some are as mysterious as the discussion which precedes the puff of white smoke from the Vatican chimney when a new Pope is elected by the College of Cardinals.

The means of recruiting trustees include the self-perpetuating oligarchies where the identities of trustees are not widely broadcast and the process of identifying new trustees is unknown to all but a chosen few. At the other end of the spectrum are those bodies which have substantial membership and endeavour to involve them in the process of search, nomination and election of trustees and members of boards. In between these extremes there are many different models, some of which have served the charities well.

Trustees elected by members

Individuals may join the **Alzheimer's Disease Society** nationally and then, if they wish, also become members of a local branch of the society. Membership of local branches is open to those who live with, work with or have concern for a person with dementia who lives within the boundaries of the branch. Only members of the society can vote or be elected to branch committees.

One third of the 12 members of the National Council retire each year and they or any other member of the society may if properly

nominated seek election to one of the vacant places. The society has 20,000 members. There are also 12 regional representatives who are elected by the members of the branches within each region. Care is taken to emphasis that once elected to the National Council these regional representatives are trustees and directors of the national society and must not act as delegates for a region.

Unusually, both the Chairperson and the Treasurer are elected for only one year at a time at the Annual General Meeting which is open to all members. There is no limit to the number of times they may seek re-election, but the elections have been contested. An Executive Committee, comprising the officers and four members is elected by the National Council. The Chairperson and Treasurer argue that the risks of lack of stability caused by actively seeking new nominations for vacancies and subjecting the officers to annual elections by the membership are outweighed by the involvement of members and that this also requires officers to be very visibly accountable to the membership.

During the last five years **Yorkshire Metropolitan Housing Association** has accomplished a transition from being an organisation with a largely self-perpetuating Management Committee to one which is elected by the members.

They have vigorously encouraged local people to become members of the Association. 70 per cent of the 425 members are now tenants, but other local residents and people with an interest in social housing and are actively sought.

Four places on the Management Committee of ten are specifically designated for tenants. The association recognises the need to have people with particular skills on the committee, but they too must seek election. Nominations are encouraged through newsletters which are sent to all members, tenants and other stakeholders and care is taken to explain the role and responsibilities of committee members.

Section 15 of the Housing Associations Act specifically prohibits members of management committees from deriving any benefit by virtue of their membership. For this reason the committee members who are also tenants do not take part in deliberations concerning rent

levels. A change to a regime which required disclosure of interests rather than prohibiting benefit would bring housing associations into line with other bodies which discharge publicly funded functions.

Yorkshire Metropolitan Housing Association has undertaken extensive training for members of the District Committees and the Management Committee and there is induction training for those who are considering seeking election. The Chief Executive and the Management Committee member, who were interviewed as part of this study, are enthusiastic about the success of the drive for membership and the participation of tenants and other local residents in the management of the association. They argue that the exclusion of tenants on the assumption that they lack necessary skills and experience has been shown to be untrue and patronizing. Also, the wider membership is equally sensitive to the need for the committee to contain a well-rounded range of talent.

Scope also has an elected Executive Council but the 250 local groups which are affiliated to the national charity have a significant role in the process. The affiliated groups, which are also individual charities in their own right, provide services to users, coordinate activities and raise some funds. They also receive both services and grants from the center.

A nominee from each affiliated group joins nominees from other organisations which, in the judgement of the Executive Council are committed to the work and objectives of **Scope**, to elect members of the Executive Council. The composition of this electoral college presently comprises approximately 264 nominee members from affiliated local groups, 9 life members, 24 affiliated national societies and organisations, 20 members of special committees and 23 Executive Council members. A two thirds majority is thus held by the affiliated local groups.

Difficulties have been experienced including those of members who, having gained election by this process wish to act as delegates for their affiliated organisations and secure benefits for them rather than acting as trustees of the national charity. Training has been introduced in an attempt to overcome these tensions.

It is evident that many people involved with charities in the field of health feel extremely passionate about the subject. In the case of **Scope**, many are parents of people suffering from cerebral palsy and consider it a duty to obtain the best services for those in their care. This passionate commitment provides a potentially explosive mixture in the composition of trustees of a charity.

Scope is considering moving towards a system of individual membership of the national organisation, accompanied by one member one vote, rather than elections dominated by affiliated organisations.

Trustees of oligarchies

Among the oligarchies there are an equally interesting variety of models. **Crime Concern** is unusual in that it is a creature of the government of the day. In 1988 the Home Office decided to use a charitable vehicle to deliver policy objectives in the field of crime prevention. An alternative might have been a quango or private limited companies as in the case of the Training and Enterprise Councils, which were created by the Employment Department the following year.

Stephen Norris had lost his Parliamentary seat at the General Election and was appointed by the Home Secretary as Chairman of the nascent **Crime Concern**. He selected the first trustees of the charity and directors of the company, ensuring membership by the three major parties and others with a particular interest in the field of crime prevention. The approval of the Home Secretary was needed for all board appointments and while this has continued to be the case, it has recently become little more than a formality.

After resuming his Parliamentary career following a by-election, Stephen Norris continued as Chairman of the **Crime Concern** board until 1991 when he was appointed Parliamentary Private Secretary to the Home Secretary, Kenneth Baker.

The members of the **Crime Concern** board are the only members of the charitable company and thus the only people who can re-elect board members as they retire in rotation, or elect new members in order to fill vacancies which arise from time to time.

Crime Concern was initially funded entirely by the Home Office. Although this has reduced mainly as a result of private sector sponsorship and grants and also by charging for specialist consultancy services, the charity continues to be heavily dependent on central government funding and could be closed down by a future Home Secretary withdrawing funding. **Crime Concern** demonstrates that a charity can be a convenient vehicle for government. Its use may attract less public and parliamentary scrutiny than other structural forms.

NCH Action for Children is a curious hybrid. In the past, half the members of the Council were required to be Methodist ministers. The present position is that the entire Council is appointed by the Methodist Conference and half its members must be members of the Methodist Church but there is no stipulation about how many ministers should be in membership of the Council. Three of the *ex-officio* members of the Committee will be Methodist ministers and there may be others from time to time. Although the normal term of office is six years all the members, other than the members of the Executive Committee and the Social Work Committee, are subject to annual re-appointment by the full Conference.

The Chairman of **NCH Action for Children**, currently Sir Michael Checkland, is required to present a full report to the Methodist Conference. In addition to membership of the Council, many Methodists are closely involved in the management of the local branches. By this means a national charity with expenditure of some £50m per annum, 2,200 staff and providing services in very sensitive areas of children's welfare is held accountable to the governing body of the Methodist Church.

Anchor – Working with Older People is a very much larger housing association than Yorkshire Metropolitan and also provides a range of additional care and support services for older people. Its 30,000 units of accommodation are distributed throughout Britain.

Anchor seeks to involve tenants in its activities and two tenants are selected to serve on each of the 12 Regional Committees. The Chairman of each Regional Committee is a member of the national board, but they do not represent or act as delegates for the regions.

Advertisements are placed in the local and trade press and internal newsletters encouraging nominations to Regional Committees and the national board. Specifications are published describing the particular skills and experience required to fill identified needs and to complement and provide balance. Professional search consultants have also been engaged. Candidates are considered by the Chairman and Chief Executive and, if judged to be suitable, proposed to other members of the Regional Committee or the national board.

Thus, while the process is transparent, there is no intention to incorporate a democratic element.

Oxfam is another major charity which now has a relatively open process, but very little democratic element. Nominations are sought from Oxfam Friends and a wide network of informal contacts. These are considered by the Chair of the Council and the Executive Committee and put to the Oxfam Association. This consists of 30 members who are present and former trustees and others from among whom it is expected some future trustees will be nominated.

In practice, the Association also includes trustees who are standing down after six years of continuous service and must wait for a year before offering themselves for a further period of service. It is this rather narrow electoral college which elects the 20 members of the Council who are also the trustees of the charity. Members are elected on the basis of 'their commitment and personal qualities and their knowledge and experience relevant to the responsibilities of trusteeship and the range of Oxfam's work.' Efforts have been made to attract more ethnic minority candidates and members with direct experience of Third World and development issues.

The People's Dispensary for Sick Animals (PDSA) makes no pretence of democracy. The original trustees were personally selected by the founder, Maria Dickin, and her successors have continued the practice when vacancies have arisen. Individuals, who it is thought would add luster to the charity, are invited to become trustees after being identified by the Chairman and in recent years this task has been shared with the Director General. They consider that this approach has served the charity well and enabled it to respond quickly

and effectively to changing circumstances. They value the fact that they are not burdened by a popular membership or affiliated branches which would reduce their capacity to act speedily and manage a complex national organisation effectively.

The Royal Opera House (ROH) did not originate as a creature of government and for much of its history has been independent and indeed also for some of the time within the private sector. Despite this, there is closer by government over the appointment of board members than any of the other charities considered.

For several years the Chairman and all the trustees were appointed directly by the Minister for the Arts. No doubt, soundings were taken of existing trustees and other interested parties. More recently, the trustees have begun to make proposals to the Secretary of State for the Department of National Heritage and these are usually approved. In addition, the Secretary of State may offer her own suggestions, but her power to approve or disapprove of any particular appointment is unfettered. Similarly the Chairman is chosen from amongst the members of the board, subject to the Secretary of State approving the board's choice.

Members of the board of the **Royal Opera House** clearly regard their appointment as an honour and value the privileges this brings alongside the onerous responsibility of being directors of a major quasi-commercial activity which operates in a relatively high risk environment.

How are charities accountable?

Charities are broadly, if not legally, accountable to stakeholders, but there are many different views about what constitutes a stakeholder in this context. When asked how they are accountable the major charities give an extended list. The means by which charities discharge their duty to be accountable are equally diverse.

It is acknowledged that the term accountability is used in many different ways by a variety of individuals and organisations. Some of these use are rather loose and ill-defined. Processes of consultation, openness and responsiveness are frequently characterized as accountability. They are certainly aids to and components of accountability, but on a more precise definition, service deliverers and others are truly accountable only to those able to exercise sanctions over them.

Batsleer and Paton consider the role of boards with regard to accountability. They argue that ‘...in principle the management committee or trustees are officially charged with reconciling the problems associated with a multiplicity of stakeholders and different forms of accountability. Sometimes, indeed, it may be constituted to act as a sort of microcosm in which all the resulting tensions and conflicts can be dealt with, in order that – in principle, at least – the larger organisational macrocosm within which it operates can function with a harmonious and balanced unity of purpose. The corrosive flaw in this vision is that the management committee is not simply a mutual arena within which all competing stakeholder interests can be adequately

and properly reflected and negotiated. It effectively functions in its own right either as a vehicle for the exercise of the influence of a specific group of stakeholders – charity trustees, company directors and so forth – or as one of the power bases within the organisation to be occupied by a coalition of stakeholders – users volunteers, funder etc.¹⁵

Another leading thinker about charity accountability is Diana Leat. She acknowledges that the accountability of voluntary organisations is similar to that of public authorities insofar as they spend public money and deliver public goods, but there are some important differences: ‘Voluntary organisations may be regarded, or regard themselves, as accountable in different senses, for different reasons and for different things, to a variety of different groups. Managing these different accountable relationships and their interaction may create tensions and difficulties...’¹⁶

Leat distinguishes sources of the right to require accountability as structural accountability which is owed to structures and hierarchies, delegate accountability which follows acts of delegated authority, and communal accountability which is due to allegiances and expectations. From this Leat goes on to describe three types of accountability. These are defined as explanatory accountability, ‘in which being accountable means being required to give an account, to describe and explain. Those demanding accountability in this sense have the right to require an account but not to impose sanctions.’ Second, there is accountability with sanctions, which to many is ‘full accountability’ and ‘...involves not only the right to require an account but also the right to impose sanctions if the account or the actions accounted for are inadequate.’ Third is responsive accountability ‘which means only that those who are accountable ‘take into account’ or respond to the views or demands of those to whom they are accountable. This is the weakest sense of accountability in that it depends rather less upon any clearly defined right of those who are accounted to and rather more on the willingness of those who are accountable. There are no formal sanctions involved although failure to be accountable in this sense, or to be responsive, may lead to loss of support from those who expect to have their views taken into account.’

How are charities accountable?

The way in which the charities within this sample define their own view of accountability can be considered against Batsleer and Paton's concerns and Leat's definitions.

Scope (formerly the Spastics Society) emphasises the legal accountability to the Charity Commissions and the need to comply with their requirements. But in addition to accountability to the members of the charity, many of whom are carers or people in a close relationship with sufferers of cerebral palsy, there is also a wider group to which the organisation holds itself accountable. These include all people with disabilities, their families and carers.

There is a link between this form of accountability and **Scope's** campaigning role. **Scope** outlines a set of 'beliefs' thus:

- 'We believe that every individual has the right to control his or her own life and to share in the opportunities, enjoyment, challenges and responsibilities of everyday life.
- We believe that care and concern for each and every person and respect for their human rights is central to any caring community.
- We believe that people with a disability are handicapped by the attitudes of others, at home, in the community, at work and in local and national government.'

Shelter – the National Campaign for Homeless People, has felt the need to review the nature and range of accountability in recent years. It has been necessary to dislodge old staff attitudes which saw the board as Victorian mill owners. The outcome of the review was to define donors as stakeholders and to recognise accountability to the public generally.

Shelter also receives grants and provides services under contracts with the Department of the Environment and many local authorities. It considers itself to be accountable to these bodies for the expenditure of public money. **Shelter** does not regard itself as accountable to all people who are homeless, its potential beneficiaries, but believes it is responsible for providing the best possible quality of services for such people and for campaigning on their behalf.

At **Anchor – Working with Older People**, the management argues that it is primarily accountable to the board which has the responsibility to ensure that agreed policy objectives are pursued and achieved. The board has decreed that the interests of the stakeholders such as the present and potential tenants are taken into account. They acknowledge that central and local government funders have adequate systems in place to safeguard public funds.

This model casts the board, albeit in this instance a non-elected board, in the position of trustees as this term might popularly be defined. By this means the non-executive board and the executive management perceive a common ownership of the enterprise.

The **People's Dispensary for Sick Animals** believes that it is primarily accountable to itself and that the trustees are both guardians and stakeholders. However, trustees express a moral responsibility for animals and their owners and for the education of the owners. They also refer to accountability to the donors and supporters of the charity.

NCH Action for Children expresses accountability to the Methodist Church in general and the Methodist Conference in particular. This is demonstrated by the chairman's duty to report to the annual Methodist Conference and the election from this body of the trustees. But, **NCH Action for Children** also holds itself to be accountable, for the quality of the services it provides, to the children at risk of violence and abuse, as well as to the local authorities with which they contract. A wider accountability to the public as a whole weighs very heavily. The trustees are aware that any conduct which brought **NCH Action for Children**, or even other charities concerned with vulnerable children, into disrepute, could seriously impair its capacity to fulfil its objectives.

The **National Council for One Parent Families** relates its campaigning role to the question of accountability. A main purpose is to enable lone parents to enter into mainstream society and this, they argue, is almost impossible while they remain dependent on state benefits. While the national membership is only about 700, most people calling for assistance from the **National Council for One Parent Families'** free advisory services are in urgent and immediate need of

financial support following the loss of or abandonment by a partner or spouse. The organisation expresses a form of accountability to this entire community of single parents. Anne Spackman, Chair of the Committee of Management, described this as a sense of guilt that she and other members of the committee would suffer if, as was then forecast, the Chancellor of the Exchequer reduced state benefits to lone parents and their families in the forthcoming budget. Similarly during the sometimes virulent campaign against the Child Support Agency which was waged by absent parents who were reluctant to pay maintenance for their children the **National Council for One Parent Families** fought 'an uphill battle to get the quieter voice of lone parents heard' by the media and decision makers. Many of these lone parents have never heard of the organisation and are unlikely to become members.

The **Yorkshire Metropolitan Housing Association** describes its accountability very widely but begins with its members. Since 1991 the organisation has worked hard to build a membership and to fully involve the members in all aspects of the management and governance.

The first focus for membership is the housing association's own tenants, but neighbours and others in local communities are energetically encouraged to apply for membership and pay a fee of one pound. A regular newsletter, 'Yorkshire Meteor', describes the organisation, its funding, committee members, simplified accounts, staff and their responsibilities, rental policies and explanations and future development plans.

Yorkshire Metropolitan Housing Association extends an invitation to the public to become members. 'We can only continue to provide the level of new homes and the quality of service that so many people have come to rely upon with the support of our members. However, we still need more members to ensure that we are truly representative of all the people we serve and are responsive to the needs of the community. We want ideas, support and contributions from more women, disabled people and members of ethnic minority communities as well as those with a general interest in housing. Your contribution is

welcomed whether it is through general interest or just keeping an eye on what we do, or with a view to standing for election to the Management Committee. Why not join us and help us to make an even bigger impact in Yorkshire? Please complete this application...'

There are 425 members of whom 70 per cent are tenants. Four places are reserved for tenants on the Committee of Management but the entire committee is elected by the members at the Annual General Meeting. Despite pursuing membership so vigorously, the **Yorkshire Metropolitan Housing Association** has not suffered from 'entryism' by any particular interest groups.

The association does not confuse this approach to accountability with potential conflicts of interests. Tenant members are not involved with decisions about individual rents or housing allocations. Although the general policies are determined by the Management Committee, the staff are responsible for implementation and they in turn are accountable to the committee for their conduct.

The **Yorkshire Metropolitan Housing Association** also acknowledges its accountability to the Housing Corporation as the funding and regulatory authority for all housing associations and the local authorities with which it has consultative and contractual relationships.

Bryan Roycroft, the Chairman of **Alzheimer's Disease Society** describes his primary accountability as to the members of the society by whom he is elected. They are his 'constituency' and he visits many branches each year in order to explain policy and developments and answer questions. Like many of the members, Bryan Roycroft was a carer for an elderly parent who suffered from dementia. He knows from personal experience that the impact of the disease is even greater for the carer than for the patient and holds himself accountable for all those who care for sufferers.

Sir James Spooner, Deputy Chairman of the **Royal Opera House**, includes donors and supporters in the list of bodies to which accountability must be shown, but he also adds paying customers. In view of the fact that the Royal Opera derives nearly 60 per cent of its income from the box office, the Royal Ballet 40 per cent, and the Birmingham

Royal Ballet 25 per cent, the section of the public which buys tickets for the performing arts are extremely important.

This commercial pressure, combined with the huge cost of mounting spectacular productions with world class virtuosi is a cause of considerable tension. There is thus an inducement to provide programmes which will be popular with the public. A single unpopular production, regardless of its artistic merit can have a disastrous impact on the viability of the entire organisation. Accountability to the paying customer, at least the individual customer rather than public sector purchasers of services, is unusual in the charity sector. The **Royal Opera House** experiences this to a critical degree.

The particular history of the **Royal Opera House** gives cause to another unusual form of accountability. Naturally it owes accountability to the Arts Council and to the Department of National Heritage. However, the fact that the former are not only donors but co-trustees of the free hold interest in the land and the latter the involved in the appointment or approval of the appointment of the Chairman, General Director, and other members of the board, results in a relationship which is sometimes akin to that of a parent company and a subsidiary, rather than of a funder and an independent charity.

Joel Joffé, Chair of the Council of **Oxfam**, describes accountability to three distinct authorities. There is the accountability to the Charity Commission and a general duty to the public to devote the resources of the charity to the achievement of its formal objectives. If it is reckless or fraudulent, the regulatory authorities have a duty to intervene. The *quid pro quo* for this form of accountability is the tax relief granted to charities.

The second form of accountability is due to the contractual relationship between **Oxfam** and the national government bodies which engage it to perform agreed services. There is a degree of clarity about this form of accountability which must be understood by both parties.

Thirdly, there is a form of 'moral accountability' to the beneficiaries of the charity. This is not enforceable in the courts, but constitutes a duty owed by **Oxfam** to its 'partners' who seek charitable funding and manage development projects which are mainly in third world countries. This is a particularly sensitive form of accountability, not least

because **Oxfam** is required to negotiate and be granted access to some countries whose governments are part of the problem. The integrity gained by **Oxfam's** accountability to its beneficiaries is of great importance to Joel Joffe, but it must not bar the way to the organisation operating in politically hostile environments.

There has been pressure, not least from some UK based and overseas staff, for **Oxfam's** accountability to beneficiaries to be demonstrated by the appointment as trustees of representatives of organisations which receive grant aid. Joel Joffe expects this debate to continue. To date it has been considered more appropriate to have comprehensive reports from regional officers and frequent field trips to evaluate effectiveness, than to distract the local management of development programmes by flying them to meetings of the Council in Oxford.

Within **Age Concern England** accountability is described formally. Both the Chairman of the Board, Robin Birch, and the Director General, Lady Greengross, consider the organisation to be accountable to the National Council which is the constituent assembly of **Age Concern England**. There is also a more general form of accountability to 'the movement' which includes all local Age Concern organisations and other bodies which provide services for or represent the elderly.

Despite the fact that **Crime Concern** was a creature of the Government and was formed with objectives set by the Home Office in 1989, the Chairman of the Board, Tim Clement-Jones, does not regard the organisation to be accountable to the Government. Although accountable to donors and sponsors, including the Home Office, he argues that the primary accountability is to 'the cause' of crime prevention. **Crime Concern** has a duty to develop and spread the message of best practice in the field of crime prevention and the organisation must be aggressive in pursuit of its cause.

Shelter has defined its primary stakeholders as the individuals and organisations which give money to the charity. This has resulted in the development of a strategy and tactics to consult and communicate with donors and to involve them in debates and campaigns wherever possible. The Director, Chris Holmes, regards himself and the board of trustees as the stewards of **Shelter** culture and charitable aims.

How are charities accountable?

All charities, except those which are determined to be exempt under the terms of the Charities Acts of 1992 and 1993, are formally accountable to the **Charity Commission**. This includes the submission of an Annual Report which conforms with the 1996 Statement of Recommended Practice and an Annual Return which enables the **Charity Commission** to maintain the Register of Charities. The Annual Reports and the Register are open to inspection by members of the public.

Who are the stakeholders?

When considering how charities are accountable, it is necessary to also consider who are stakeholders. The comparison with the private sector is illuminating. Commercial enterprises have only one formal line of accountability and this is to the shareholders who own the company. In addition, there are subsidiary forms of accountability to customers, suppliers and employees and progressive companies wish to be seen as good neighbours and as contributors to the communities in which they operate.

Bastleer and Paton examine a stakeholder typology and approach to the voluntary and non-profit organisations. They argue that ‘the classification of voluntary and non-profit organisations ... distinguishes between them in terms of their dominant stakeholders. The stakeholders in an organisation are those people or groups who have a ‘stake’ in it, that is a continuing interest in its activities and the capacity to influence it. Every organisation has a number of stakeholders – members, staff, clients, customers and so on – and each will interpret the mission of the organisation in a somewhat different way. Perhaps in an ideal world the concerns of these different parties would be appropriately and harmoniously balanced and integrated. In practice, it is common for differences to emerge between stakeholders, and for the development of voluntary organisations to be marked by major shifts of power from one group to another – for example, from the membership to the staff. The most influential stakeholders determine much of the

character of an organisation – including the key organisation problem it experiences.¹⁷

This section does not attempt to conduct a stakeholder survey or assess the relative esteem of different stakeholders, but describes the views of some of the Chairmen and Chief Executives about their own definitions of the identity of the stakeholders.

Charities have a more diverse and complex group of stakeholders and it is often difficult even for people employed by a charity to have a shared view about the identity of the stakeholders. Yet unless this is agreed it is unlikely that a charity can begin to plan how it should be accountable.

The National Council for One Parent Families defines its stakeholders as primarily the 700 plus subscribing members of the organisation followed by the staff who also make a substantial personal investment. **NCH Action for Children** considers their principal stakeholders to be the Methodist Church.

The People's Dispensary for Sick Animals adopt a narrow view in regarding the main stakeholders to be the trustees themselves. These are the guardians of the unchanging mission of the founder and their self-selecting character seems to lend legitimacy to this view. By this means they have maintained the organisation's loyalty to the original objectives of caring for 'sick animals'. They have not been deflected into such related subjects as campaigning against the export of live calves or the more general subject of cruelty to animals. Defining the trustees as main stakeholders and having their own unique Acts of Parliament has given strength and consistency and avoided the risks of waxing and waning according to the fashions of the day.

The Chairman and Director of **Shelter – the National Campaign for Homeless People** believe the main stakeholders to be the donors to the charity. **Shelter** perceives a duty to not only inform donors how their money is being spent, but also to involve them in debate and education in the field of housing and homelessness. While this is clearly related to the marketing strategy and the need to maintain a flow of funds, because **Shelter** has been involved in several high profile campaigns, the organisation has found it expeditious to build and endeavour to maintain regular links with both corporate and individual donors.

The Charity Commissioners – governance and accountability

This report looks at the ways in which a sample of major charities address the subjects of governance and accountability. It is not concerned with the role of the Charity Commissioners as the regulatory authority for charities, but only insofar as this has a bearing on the issues of governance and accountability.

‘The Charity Commissioners are appointed under the Charities Act 1993 principally to further the work of charities by giving advice and information and checking abuses. In particular the Commissioners:

- maintain a public register of charities;
- investigate misconduct and the abuse of charitable assets, and take or recommend remedial action;
- give advice to charity trustees to make the administration of their charity more effective; and make Schemes and Orders to modernise the purposes and administrative machinery of charities and to give trustees additional powers.’¹⁸

The Charity Commissioners emphasise the importance of people recognising that they are trustees of charities. ‘You are a charity trustee if you are a member of the body of people responsible for controlling

How are charities accountable?

and managing your charity, whether you are actually called 'trustee' or not. If you are:

- a trustee of a charitable trust; or
- a member of the management or executive committee of a charitable association; or
- a director of a charitable company,

then you are a trustee. If you are in doubt about whether or not you are a charity trustee, the Commissioners will be able to advise you.¹⁹

While it is not suggested that there is any ambiguity about the identity of the trustees of any of the charities which are the subject of this review the multiplicity of the titles of their various boards, councils and management committees do not always make this clear to the outside world. Robin Birch, the Chairman of **Age Concern England**, described the enhanced sense of authority and responsibility which occurred shortly after he came into office and changed the name of the Executive Committee to the Board of Trustees and insisted that all its members should read the Charity Commissioners' handbook on 'Responsibilities of Charity Trustees'.²⁰

The Charity Commissioners can enforce a form of accountability in that its register of charities is open for public inspection and they may prosecute a charity for failing to submit an annual report and accounts. These reports are open for inspection. The 1992 Act also gives members of the public the right to obtain accounts directly from charities, albeit on payment of a reasonable fee.

Within the next few years information which stakeholders can glean from the annual reports and accounts of charities will become more comprehensive as a result of the Charities Acts of 1992 and 1993 and the implementation of a new Statement of Recommended Practice (SORP).²¹ This stipulates that from March 1996 a charity's annual reports and accounts should:

- provide timely and regular information on the charity and its funds;

- enable the reader to gain an understanding of the charity's activities and achievements; and
- enable the reader to gain a full and proper appreciation of the charity's financial transactions during the year and of the position of its funds at the year end.

The SORP's objective is to help improve the quality of financial reporting by charities and to assist those who are responsible for the preparation of the charity's annual report and accounts. The intention is that these recommendations will reduce the current diversity in accounting practice and presentation. Charities are in future required to comply with the SORP. 'If a recommendation is incompatible with the obligation to give a true and fair view, and alternative accounting treatment will be necessary. Particulars of any material departure from these recommendations, the reasons for it ... should be given in the annual report. ... A departure is not justified simply for the purpose of presenting the reader a more appealing picture of the financial position or results of the charity.'²²

The SORP should result in greater clarity in respect of those charities which operate through branches, which will be included in the accounts of the main charity. Subsidiary undertakings which will be consolidated and connected charities which must be identified and particulars of material transactions between them included in the report. In the light of the continuing growth of the contract culture in the charity and voluntary sector this information will enable a potential partner or contractor to have a more comprehensive view of the financial health of the charity from its annual report and accounts.

In addition to requiring a great deal of financial information which has not been available in the past and in a format which will facilitate comparison, the SORP also stipulates what should be contained within the narrative of the Trustees Annual Report. This report must indicate the nature of the governing document (for example the trust deed; memorandum and articles of association; Charity Commission Scheme or Royal Charter), how the charity is constituted, the names of all trustees and those who are also members of any sub-committees.

How are charities accountable?

The Annual Report should contain an explanation of what the charity is trying to achieve and how it is going about it including:

- An explanation of the objects of the charity by reference to its governing document; a summary of the policies that have been adopted in order to further those objects; any material changes in the policies that have been adopted in order to further those objects; any material changes in the policies since the last report and the reasons for those changes or a statement that there have been none; a description of the way in which the charity is organised.
- A review of the development, activities and achievements of the charity during the year. This review should enable the reader to judge its effectiveness ...
- A review of the transactions and financial position of the charity and an explanation of the salient features of the accounts. This review should put the accounts into an accurate perspective so that they may be readily understood and should show how the charity aims to achieve its objectives ...
- On a fund by fund basis, confirmation or otherwise that the charity's assets are available and adequate to fulfil the obligations of the charity...
- A review of the relationship between the charity and its connected charities and with any other charities and organisations with which it cooperates in the pursuit of its charitable objectives. The purpose of this part of the report is to ensure that the reader is aware of the wider organisational context in which the charity is operating.²³

The Charity Commissioners have wide ranging powers with regard to the governance of charities, but some of these effectively require the charities to be self-regulating. For example, Section 72 of the Charities Act 1993 disqualifies trustees who have unspent convictions for offences involving dishonesty, are undischarged bankrupts, have been removed from trusteeship by the Charity Commissioners or a court

because of misconduct, have failed to make payments under a County Court administration order, or have made compositions with creditors and have not been discharged. However, as soon as a trustee comes within Section 72, for example on the day they are convicted of an offence involving dishonesty, they are automatically disqualified from acting as a trustee and commit a criminal offence by continuing to act as a trustee while disqualified. The onus is thus on the individual trustee to withdraw or for the charity, if it knows about the cause of the disqualification, to exclude the person from trusteeship. A charity which unknowingly continued to treat a disqualified person as a trustee, would not be committing an offence. It is difficult to know what a charity chairman should do to ensure that trustees confirm their competence to continue to serve.

Under the Charities Act 1960 the consent of the Charity Commissioners was needed in order to sell land or buildings or to commit property as security for loans. Under the latest Act, the trustees must obtain and consider the written advice of someone with ability and experience in financial matters who has no financial interest in the matter and duly record the advice and the decision. In this and other respects, the Charity Commissioners have moved from a regime which required the specific consent of Commissioners to one in which particular conduct is stipulated and may be audited.

Prior to the current legislation the Charity Commissioners were allowed to make investigations into charities for whatever purpose they wished. They could however not act to protect property unless, in the course of the investigation, they had uncovered misconduct or maladministration. In order to protect property from possible misuse or fraud, the Charity Commissioners may, among other things, suspend trustee(s) or employees(s) of the charity, freeze the charity's bank accounts and transfer property to the Official Custodian for safekeeping.

The quite extraordinary range of these powers was demonstrated when, on 8 March 1996, the Charity Commissioners stepped in to freeze the assets of the London based **Palestinian Relief and Development Fund**, known as **Interpal** as a precautionary measure following allegations from the British Foreign Office and the Israeli

government that charitable funds were being channelled to supporters of Hamas, the group which has claimed responsibility for suicide bombs in Israel. A spokesman for the Charity Commissioners is reported as explaining that the action was not 'accusatory' but 'merely protective and temporary. An order is placed on the bankers not to release funds without our say so.'²⁴ An **Interpal** spokesman claimed that the organisation 'is purely charitable and humanitarian'.

This case demonstrates the exceptional powers of the Charity Commissioners when they are persuaded, without conducting an investigation, to exercise these to control the conduct of a charity. Thus, a trustee who has been convicted of major fraud offences is under a personal duty to disclose this and simply ceases to be a competent trustee, even if the charity is ignorant and the person continues to act as if he or she were still competent. The Charity Commissioners have not expected any interest in tracking down such bogus 'trustees' or punishing the charities. And yet a complaint from a backbench MP and other untested allegations can be sufficient to bring to bear the full panoply of powers, including the summary freezing of bank accounts and preventing a charity from continuing to function without the application of due process.

The Charity Commissioners also have wide powers where, as a result of an investigation, they find that misconduct has occurred. They may remove responsibilities trustee(s) or employee(s) and make a 'scheme' to reorganise the charity, whether or not the trustees wish to cooperate. They may also require defaulting trustees to fulfil their obligations as trustees, pursue trustees who have committed breaches of trust and to recover charity property or seek damages.

The Charity Commissioners provide guidance to charity trustees and managers by a range of booklets and summaries and direct advice given by staff in response to enquiries. With regard to the governance of charities there are two further matters which merit attention. These are the powers of trustees to delegate and the personal liability of trustees.

The general rule is that trustees must act in person and decisions concerning the charity must be taken by the trustees acting together.

‘They can always invite some of their number to look into particular matters connected with the charity and to make recommendations, but the decision whether or not to act on the recommendations is for the trustees to take together. No single trustee should be allocated a part of the income of a charity or manage any particular aspect alone. In some cases the governing document of a charity may permit the trustees to set up committees with limited powers to carry out particular functions.’

‘A provision in the governing document allowing the employment of a clerk or other officers does not, in itself, authorize the trustees to delegate the administration of the charity to those officers. The trustees of some charities, because of the scale or nature of the work of the charity may, of necessity, have to delegate to employees decisions on day to day management matters. But the scope of the delegated authority must be clearly laid down in writing and instructions given for decisions on important matters to be reported to the trustees. The trustees remain legally responsible and must supervise and control work of the officers.’²⁵

This limitation on the scope to delegate authority, mainly to the executive management in the case of major national and international charities with multi-million pound transactions is a cause of tension and anxiety for some trustees.

With regard to the personal liabilities of trustees, the Charity Commissioners explain that ‘If trustees act prudently, lawfully and in accordance with their governing document then any liabilities they incur as trustees can be met out of the charity’s resources. But if they act otherwise they may be in breach of trust and personally liable to meet any call on the charity’s property arising from their actions, or to make good any loss to the charity. Since trustees must act jointly in administering a charity, they will also be responsible jointly to meet any liability incurred by them or on their behalf.’²⁶

The Charity Commissioners have powers to institute proceedings for the recovery, from trustees personally, of funds lost to a charity as a result of a breach of trust.

‘Trustees should be particularly careful when entering into substantial contracts or borrowings to ensure that the charity has the means to meet its obligations. If trustees incur liabilities or debts which amount

in total to more than the value of the charity's assets they may be sued personally for the difference by the charity's creditors.²⁷

In practice, many charity trustees are potentially exposed to personal liability, not due to deliberate or culpable acts, but by virtue of the fact that they donate time to the service of charities which are functioning in an increasingly turbulent environment. Unless a charity has very large and unrestricted funds, it may be almost impossible for a trustee who attends four or six meetings each year to know that the combination of contracts, borrowings and other commitments are at all times secure and without risk.

When contracts with central or local government can sometimes be terminated prematurely and without fault, it is often difficult for trustees to be entirely satisfied that their charities have, at all times, sufficient current assets to cover liabilities. The introduction and maintenance of fast and reliable risk management systems which will guarantee adequate early warning for both executive management and for trustees are thus imperative.

The Director and Chief Executive of a charity is very seldom also a trustee. In this sample, the only exceptions are Sir Jeremy Isaacs who is both the General Director and a trustee of the Royal Opera House and Malcolm Curtis who is both the Director General and a trustee of PDSA. It is however probable that where the trustees of a charity are held to be jointly and personally liable as a result of a breach of trust or trading wrongfully, the Director would also be held to be liable by virtue of his or her position alongside the trustees in the decision making hierarchy of the charity. This liability might also extend to the charity's Finance Director.

The Charity Commissioners offer an increasing range of services to the general public and to interested parties. Computer-based access to information about registered charities will become more useful to stakeholders and researchers when the more comprehensive and more uniform disclosure of financial and governance information comes on stream as a result of the Charities Acts and the SORP. The Charity Commissioners are themselves endeavouring to become more visible and accessible to members of the public.

The Charity Commissioners have a regulatory function with regard to charities and considerable powers to intervene and exercise controls where they deem this to be necessary. While it is unlikely that individual charities will be directed in terms of the particular form of their governance and accountability, the days of what have sometimes seemed to be semi-secret societies with self-perpetuating boards of trustees and accountable largely to themselves, may be nearing an end.

Charities' politics and campaigning

The trustees of a charity are of course responsible for all aspects of its conduct and the degree to which they can delegate authority to the executive management are limited. Because of this overarching responsibility it would be misleading to focus on one aspect. However, because it has attracted parliamentary and media attention and can bring charities into conflict with the Charity Commissioners, trustees have cause to exercise particular caution in the area of campaigning.

Charities, including many within this inquiry, have a long and distinguished record of contributing to social reform. They do so by their practical work and by their example. They also do so by the contribution made to public debate on how issues are best addressed. The Charity Commissioners explain that '... this can involve participation in issues that engage the political process. Charities cannot under our law be political bodies but this does not mean that they cannot contribute to the political process. The way in which they do so must take account of the constraints which the law places on political activity by charities.'²⁸

The law is clear that charities must not have political objectives. There is however little direct guidance from the courts on the line to be drawn between activities by charities in a political context in pursuance of their objects which are permissible and those that encroach too far into the sphere of politics.

The Charity Commission aims to provide specific guidance on the basis of the principles set out above on activities which charities may

and may not undertake. 'Given the fact that the guidance is mostly derived from general principles rather than specific judgements of the courts, it needs to be tested on the basis of practical examples.'²⁹

Although an organisation established for political purposes can never be a charity, the trustees of a charity may do some things of a political nature as a means of achieving the purposes of the charity. But any political activity undertaken by trustees must be in furtherance of, and ancillary to, the charity's stated objectives and within its powers.

In summary, a charity can engage in political activity if:

- there is a reasonable expectation that the activity concerned will further the stated purposes of the charity, and so benefit its beneficiaries, to an extent justified by the resources devoted to the activity;
- the activity is within the powers which the trustees have to achieve those purposes;
- the activity is consistent with (the Charitable Commissioner's) guidelines;
- the views expressed are based on a well-founded and reasoned case and are expressed in a responsible way.³⁰

The constraints on the campaigning activities of charities are a minefield, but this has been usefully navigated by Richard Clayton in the periodical, *Charities Management*. A charity may not:

- support a political party or engage in party political demonstrations, which includes the publication of material which supports or opposes a particular political party;
- claim evidence of public support on a political issue without adequate justification, or provide its supporters and members of the public with material specifically designed to underpin a political campaign for or against a political party or a particular MP;

How are charities accountable?

- invite supporters or the public to write to MPs without providing them with sufficient information to make a reasoned argument in favour of the charity's position;
- persuade the public to vote for or against a candidate or for or against a political party;
- overstep the line between education and propaganda, or publish research which it knows (or ought to know) is inaccurate or distorted by selection to support a preconceived position;
- undertake research for another body where it is clear that body intends to use the research for party political or propagandist purposes.³¹

When the Charity Commissioners consider that a charity has failed to follow the guidelines on political activities and campaigning it will take the matter up with the trustees and seek an explanation. In the absence of a satisfactory explanation a range of possibilities arise, including simply giving advice to trustees, taking proceedings against the trustees for the repayment of the funds applied on the activities in question or restricting future political activity.

‘The extent to which charities are allowed to promote, support or take part in political activities has to be considered in each case in the light of all the relevant circumstances. It is not sufficient for the trustees simply to believe that their activities will effectively further the purposes of the charity; there must be a reasonable expectation that this is so.’³² Because of the need to meet these requirements it is important that any charity undertaking political activities should appreciate the distinction between education and propaganda and have adequate arrangements in place for the commissioning, control and evaluation of such activities by its trustees.

The **PDSA** has as its governing instrument two Acts of Parliament of its own. It does not engage in political or campaigning activities of any sort and is content with its position. The **Royal Opera House** is heavily engaged in public education and campaigning about the place of the performing arts in society, but is not concerned with the kind of

political activity and campaigning which interests the Charity Commission. All the other charities within this study are committed to public education, campaigns and political activities to varying degrees. All of them welcome the greater clarity in this field since the publication of the Charity Commissioners Guidelines in 1995.

Oxfam has campaigned vigorously since the 1970s when it decided that, within the bounds set by charity law, it had to campaign on behalf of the people it worked with overseas, and talk to decision makers in Britain who could have an impact on world poverty. In 1985 **Oxfam** organised a mass lobby of Parliament as part of its Hungry for Change campaign which ran until the end of the 1980s, bringing together many thousands of people to call for a better deal for the world's poor. Today such campaigning work is continued through Oxfam's Campaigning Network, which links people who want to be part of a global challenge to poverty.

David Bryer, the Director of **Oxfam** explains that in the past the organisation felt itself to be sometimes seriously constrained by the Charity Commissioners and the risk of legal sanctions. Since the 1995 guidelines the position has been clarified and he no longer considers there to be any undue constraint. Indeed, he is now more constrained by the need to keep the public, including present and potential donors, on Oxfam's side and this requires that all campaigning activity must be well-informed and sensitive. David Bryer is concerned that the Charity Commissioners 1995 guidance has yet to be tested in court and would regret any reversal to the pre-1995 position which might result from a series of test cases.

Shelter is another major charity with a high profile campaigning role. It describes the Government 1996 housing Whit Paper, *Our Future Homes*, as 'a kick in the teeth' for homeless people and encourages supporters to write to MPs. However, this is a part of a closely argued analysis of the White Paper.

Shelter has circulated a 'campaign mobilisation form' to all its regular supporters and donors informing them of the name and address of their MPs, indicating key points in the campaign against the White Paper and giving a simple guide about how best to write letters which will attract the attention of busy MPs.

Christopher Pryce, the Chair of **Shelter** explains the organisation's concern to comply with the law concerning campaigning and political activities but argues that '**Shelter** is a campaigning body and exists partly in order to make life uncomfortable for both Government and Opposition Parties.' It is noted that the full title of the charity is **Shelter – the National Campaign for Homeless People** and thus campaigning is written into the publicly known name of the organisation.

Shelter has been the subject of one major complaint in its 25 years of existence. This was originated by a backbench Conservative MP who complained that some campaign literature was misleading. Mounting a defence to the Charity Commissioners has been extremely expensive and time consuming and taken staff away from what Christopher Pryce considers to be more important activities.

The relationship between trustees and executive management

All the charities which are the subjects of this study are large, have complex management structures and employ professional management and staff to achieve their objectives. **Oxfam** has 1,256 staff and 30,000 volunteers based in Britain and a further 1,627 staff employed overseas. **Anchor – Working with Older People** has 677 office-based staff and 5,765 scheme and estate-based staff including wardens, care staff and nurses.

It is clear that organisations of this scale and operating on a national or international level, cannot be actually managed by trustees. The relationship between the trustees who donate time and expertise to the charities and are ultimately responsible for every aspect of its conduct, and the executive management who are employed by the trustees is thus of importance and fundamentally different to the relationship between non-executive and executive directors in a private sector company.

The directors or chief executives of charities are not usually allowed to be trustees of that charity primarily because they derive their incomes from the charity and are thus beneficiaries. Charity trustees have been debating this position in recent years and there is a body of opinion which is inclined to include the executive director, and perhaps other members of the senior management team as trustees.

This dilemma was touched on in an article by Kevin Ford. He explains that ‘... under the present charity structure, instead of being

acknowledged as a key figure in the organisation, the Chief Executive has a curious advisory role – apparently exhorting from the sidelines. This does not reflect reality. The way in which trusteeship is organised is in crisis. There are less and less people volunteering to join managing committees and few young people sign up. Amongst existing trustees there is a better awareness and growing unease about the enormous responsibilities they undertake for increasingly complex organisations.³³

Ford argues that ‘... One step towards improving matters would be to recognize that Chief Executives are key figures in an organisation and make them full members of the board. This is common practice in private companies where there is a long history of executive ‘staff’ and non-executive ‘trustee’ directors.

In this section the views of some of the Chairmen and Chief Executives of the sample group of charities are considered.

Joel Joffe, the Chair of **Oxfam**, considers that the senior executive directors should be part of the board and act as full trustees. He believes that this would demonstrate, both internally and to external stakeholders, the partnership between voluntary trustees and executive management which is essential for successful operation. The voluntary trustees should however be in a guaranteed majority.

Anne Spackman, Chair of the Committee of management of the **National Council for One Parent Families**, believes that the Director should not also serve as a trustee. She considers that the Director has a right to pursue her own career and this might involve the decision to leave the organisation. The trustees, by virtue of their voluntary commitment to the objectives of the charity are apart from such comparatively short term considerations. Anne Spackman argues that the Director should have a powerful voice and be influential in all decisions of the trustees, except those relating to such matters as the Director’s own remuneration.

Christopher Pryce, the Chair of the Board of Management of **Shelter the National Campaign for the Homeless**, believes that it makes little difference whether the Executive Director is a trustee or not. The relationship depends essentially on the personalities of the

people involved in making decisions and the involvement of the Executive Director is crucial for success. The Director, Chris Holmes, is happy not to be a trustee as he would be reluctant to exchange his present position which he describes as being the key adviser to the board, to being merely a member of the board. He has nonetheless the responsibility for the implementation, by the entire organisation, of the decisions of the board.

The Chair of the Council of **NCH Action for Children**, Sir Michael Checkland, considers that the Director General should be seen as the servant of the Council rather than a trustee. This, he believes, provides a degree of clarity which is helpful to the relationship and is understood by all staff and by the Methodist Conference to which the charity is formally accountable.

For several years the Chairman of **Scope** has been effectively an executive officer. Anthony Hewson has donated three or four full days each week to the management of the charity and during this time has dealt with some difficult tensions in the relationship between the elected trustees and the employee management. Two Chief Executives have left in the last five years, sometimes under acrimonious circumstances.

Anthony Hewson describes a history of some mistrust between management and trustees which has caused trauma in the life of the charity. There has been conflict about the respective roles of management and trustees as well as misunderstanding. **Scope** has, under the chairmanship of Anthony Hewson, undertaken wide-ranging changes to its governance. This includes intensive training of present and potential trustees and greater clarity about the role and relationships between trustees and the executive management. Anthony Hewson does not consider the issues of the chief executive also serving as a trustee to be important against the scale of change the charity still aims to achieve. However, his personal view is that the Chief Executive and executive directors of charities generally should hold formal trustee roles, but that the balance of the trustee body should always be heavily weighted in favour of the voluntary trustees.

At **Age Concern England** the Director General, Sally Greengross, does not consider it appropriate for the executive management to

serve as trustees. However, she argues that as part of complex charities turn themselves into more and more commercial ventures it might be appropriate to adopt models which are more akin to PLCs with paid trustees and executive management also acting as trustees.

The Chairman of **Age Concern England**, Robin Birch, a recently retired senior civil servant describes the preferred relationship between the trustees and the chief executive as similar to that between the Ministers and the civil servants in a Department. A primary responsibility of the board of trustees is to ensure that they exercise effective control over the executive management.

The **Royal Opera House** is very unusual in that its General Director, Sir Jeremy Isaacs, serves as a trustee and is also a member of the boards of all the subsidiary and associated charities. The Deputy Chairman, Sir James Spooner, explains that the trustees are very much more actively involved in the management of the enterprise than the non-executives of many PLCs. In these circumstances the roles of executive management and trustees are integrated. While Sir Jeremy Isaacs' position as a trustee is unusual, the fact that he also serves as a member of the Audit Committee of the Royal Opera House is exceptional. It is generally recognised within the commercial world and recommended by the Cadbury Committee that the membership of the Audit Committee 'should be confined to the non-executive directors of the company and a majority of the non-executives serving on the committee should be independent...'³⁴

The **Alzheimer's Disease Society** has more clearly defined terms of reference than many other organisations which set out the respective roles of the Council (trustees), the Executive Committee and the management and staff. It explains that 'the Council, as the board, has full powers to act on behalf of the Society. The Council may delegate any of its powers to committees, but it, as a whole, has ultimate responsibility for all decisions taken both in company and trust law. The Executive Committee is a subcommittee of the Council with delegated powers set out below.'

'The Council is too large a body to deal with all items of Society business. Indeed the society's size and the range of its activities means that it would be impossible for it to do so. Good trustees delegate their

powers but do so in a clear and controlled way so as to retain overall responsibility for issues of importance and to ensure that procedures for control and management are in place.’

Relations with staff are set out in the same document which states that ‘members of staff are not members of Council. Senior staff members attend Council to advise it and to contribute as required. The staff representative group is entitled to send an observer to Council meetings. Staff may not vote. The Executive Director is the company secretary but not a member of the board. The Executive Director is responsible, through the Chairperson, to the Council. The staff are responsible to the Executive Director. Staff do not take instructions from individual members of Council.’

The role and responsibilities of the senior management team, the Chairperson, the Executive Director and the various committees, including the Medical and Scientific Advisory Committee and the Research Panel are also described in plain English. These are available to all staff and also contained in a comprehensive Branch Manual.

Bryan Roycraft, Chairman of the **Alzheimer’s Disease Society**, explains that the Executive Director, Harry Cayton, runs the organisation and advises on policy, but the trustees have legitimate views not only on policy, but on the style and ways in which the policy is implemented. Harry Cayton appreciates the arguments in favour of the appointment of not only the Executive Director, but the other three members of the senior management team as full board members and trustees.

Anchor – Working with Older People, also has detailed standing orders describing the responsibilities of the board and the chairman, the composition and duties of regional committees and advisory groups including the audit committee. ‘The Chief Executive is the only employee directly appointed by and responsible to the board. The Chief Executive accounts to the Chairman of the board for his day to day decisions.’

The need for clarity of roles is emphasised by **Anchor**. ‘The Chief Executive is responsible for the effective management and the coordination of the activities of **Anchor**. To achieve this the board

should delegate to the Chief Executive all management responsibilities within a framework of delegations and limitations set by the board. It is therefore necessary to specify the functions and responsibilities that will be retained by the board, passed to regional committees or fall to be determined by members at a General Meeting.’

The role of the **Anchor** board in relation to the officers and staff is set out in the organisation’s submission to the Nolan Committee’s inquiry into the conduct of local public spending bodies in October 1995. The role of the **Anchor** board is ‘to establish policies for the governance of **Anchor**, not to take on its direct management responsibilities. Effective delegation by the board is regarded as essential. It is naive to expect a board, meeting for a few hours every six weeks or so, to be able to assume total control for operational decision making. The board’s time is devoted to resolving the financial, organisational and external policy issues **Anchor** has to face and in monitoring management’s performance in the implementation of those policies. Members and management have a shared responsibility to propose policies, from which the board will determine and set an appropriate policy framework; managers then implement and manage. The board’s role is to direct and control, not to manage.’

The carefully described dichotomy between the board and the executive management notes that ‘meetings of the board are attended by the Secretary, Chief Executive and **Anchor’s** senior management team. There is therefore an opportunity, and in the case of the Secretary a duty, to inform and caution the board if their activities are likely to be regarded as improper or imprudent. The terms of reference of **Anchor’s** Audit Committee also reserve the right for the Head of Internal Audit to directly report a failure to address any key audit findings.’

What are the risks of the new environment?

In the past charities and voluntary organisations have raised money in order to achieve objectives to which they were committed. This still happens. Gradually charities became used also to receiving public money in the form of grants from central and local government. Put positively, such grants were to enable charities to be more innovative than statutory authorities, to test new approaches in fields such as education, welfare and housing. Grants to charities also enabled central and local government to demonstrate that it was addressing contentious issues, even if it was not doing the work directly.

During the 1980s and 1990s grants have often been replaced by contracts. Charities and voluntary sector organisations now compete against each other and to some extent against the private sector, to secure contracts to deliver public services with public funds.

The competence of charities to deliver public services economically, efficiently and effectively is not the subject of this research. But there are important issues which relate to the governance of charities and the capacity of part-time non-executive trustees to oversee organisations which are exposed to a new range of risks.

‘Care in the Community’, the strategy developed by the Department of Health to reduce long stays in hospitals and institutions to enable more people to be provided with support in their own homes and communities, has provided major opportunities for charities in the health care field. Alongside the policy there was the introduction of

compulsory competitive tendering which required local authorities to put out to tender many of the services which were traditionally provided directly.

Two of the charities within the present study have responded very differently.

Age Concern England is the national centre of a network of over 1,000 local Age Concern organisations which offer direct services to older people. Each of these bodies is a separate registered charity and may also be a company limited by guarantee. Each has its own trustees who may also be members of a board of directors, its own charitable objects, memorandum and articles of association as well as its own bank account.

The Age Concern organisations are genuinely autonomous. They use the nationally recognized brand name and are encouraged to comply with nationally determined 'essential standards.' They are judged by peer organisations and if, after guidance, an organisation failed to meet the required standards it would cease to be a member of the National Council on Ageing which elects the trustees of **Age Concern England**. It would also cease to benefit from the advisory and other services provided by **Age Concern England**. It is doubtful that such an organisation could be prevented from continuing to use the national brand name.

Many local Age Concern organisations enter into contracts to deliver services for older people. The services are usually day centres, luncheon clubs and other facilities. The contracts are usually with the social services departments of local authorities although the NHS Trusts are also involved in purchasing services. Contracts are with local Age Concern organisations and **Age Concern England** is not a party.

In event of a default or, for example, a serious injury resulting in a substantial claim against the provider of contracted services, **Age Concern England** could claim that it was a party to contracts entered into by autonomous organisations which bear the same name. While this is factually correct, it is unlikely to satisfy a creditor who would seek recourse from what it perceived to be the parent charity.

From the perspective of governance and risk management it is important to know whether the trustees of **Age Concern England**, the trustees of each autonomous local **Age Concern** organisation and all the stakeholders involved in local contracts to deliver public services are fully cognisant of the ambiguities of the present position.

An entirely different approach to contract management in the health services field is adopted by the **Alzheimer's Disease Society**. Its Branch Manual states quite clearly that local branches are 'not autonomous'. They are all part of the same registered charity and company limited by guarantee. Funds raised locally are banked centrally and the accounts of all branches are consolidated.

The **Alzheimer's Disease Society** also contracts with local authorities and NHS Trusts to deliver services for older people, particularly those suffering from dementia. Such contracts are negotiated by the 250 branches, but are then proposed by the regional management to the national center and require the signature of the Director before contracts can be exchanged.

This process lifts much of the burden from local committees. It could be said that local committees are less likely to be fully committed to the satisfactory achievement of the objects of such contracts if they are not fully responsible and liable for them. This approach does not empower local committees. However, the advantage is that the trustees of the national charity can be informed of the extent of the organisation's exposure to contracts.

Many of the other charities considered in this research are also engaged in contracts with public bodies to deliver public services. These two examples have been chosen in order to indicate almost opposite approaches to a similar problem in a similar field of activity.

PART II

In making enquiries about charities it is apparent that very few people have an accurate picture of the scale and nature of some of the major organisations in the field, even though several of them are household names.

The following section is thus a brief pen picture of each of the charities which have been subjects of the inquiry. It provides some basic information about the origins of each charity; some key points in its history; its formal aims and objectives; the composition of its governing body; any associated or subsidiary bodies and its recent income and expenditure. Finally it gives the names of the people, usually the Chairman and the Chief Executive, who have provided the information for the research.

All the information contained in the appendices has been checked and agreed with the management of the charities concerned.

Age Concern England

Age Concern England is an unincorporated association and is a charity registered as the National Council on Ageing. It is a central resource to a nationwide network of Age Concern and Old People's Welfare organisations. Its main object is 'to promote the welfare of the aged in any manner which now is or hereafter may be deemed by law to be charitable'.

In October 1940, following a conference convened by the National Council of Social Services to consider the welfare of elderly people, a committee was formed with representatives from national voluntary organisations and three government departments 'to study the needs of old people and promote measures for their wellbeing'. By 1995 the Committee had become known as the National Old People's Welfare Council.

The title, Age Concern, was introduced in the 1970s and has since been widely adopted. In 1989 the formal title of the organisation was changed to the National Council on Ageing.

The National Council is the constituent assembly of Age Concern England. It meets twice a year to receive a report from the Board of Trustees and discuss key policy issues and future campaigns. Its membership consists of four Honorary Officers, representatives appointed by three National Age Concern Organisations, 120 full member Age Concern Organisations, and 99 national organisations (including 12 retirement/pensioner organisations) with nine Age Concern Group

How are charities accountable?

Associate Member elected regional representatives and nine representatives elected by other Associate members.

In addition to the meetings of the National Council there are meetings of its main constituent parts: a National Organisations Forum, A Retirement Organisations Forum and the Forum of Age Concern Organisations. Each of these meet twice a year, report to the National Council and contribute to the policy formulation and campaigning activities of Age Concern. The Forum of Age Concern Organisations is a key body for debate and development of standards for Age Concern organisations which are formally adopted by the National Council as criteria for Age Concern organisations being members.

An Executive Committee, to be renamed the Board of Trustees, meets four times each year and is responsible for 'managing the affairs of the National Council.' The three Trustees are elected by proportional representation every three years by the representatives who are members of the National Council. Nineteen are elected by Age Concern Organisation representatives (two from each of nine Regions plus one from Age Concern London), seven elected by National Organisation representatives, two by Retirement Organisation representatives, two by Age Concern Group Associate member representatives, one from other Associate members; the four Honorary Officers and up to three co-options.

In 1994 Age Concern England adopted a Development Plan based on a Mission Statement, 'to promote the well-being of all older people and help make later life a fulfilling and enjoyable experience.' Its principles are:

- to promote positive attitudes towards older people and ageing;
- to influence and develop public policies that affect older people;
- to promote effective care for older people; and
- to encourage choice and opportunity for older people.

Age Concern England is at the centre of a federal structure with a network of some 900 Age Concern organisations which between them

offer direct services and support; public education and advocacy; innovation and research; and partnership and cooperation. This work is supported by Age Concern England through the provision of information and policy, publications, the training of professional and voluntary carers, campaigning and fundraising, parliamentary information, research and the development of services. Age Concern England provides the secretariat for Eurolink Age, A European NGO concerned with ageing issues and plays a leading role in the International Federation on Ageing.

The Age Concern organisations are independent bodies and registered charities and the Age Concern name and logo are not copyright. They are however subject to formal review following detailed reporting on policies and practices and satisfaction that they comply with legal and accounting requirements and nationally determined 'essential standards.' Peer judgement is made by the elected members of the board of trustees who represent the Age Concern organisations. An organisation which failed the test would cease to be a member and thus unable to benefit from the services provided by the headquarters.

The income for the year to 31 March 1995 was £13.38m and expenditure £12.57m. Fixed assets were £6.78m. There were 278 staff employed. These statements related only to Age Concern England and its trading subsidiaries and not to the network of local organisations. Age Concern England wholly owns and controls the following companies, each of which has an issued share capital of £2.00 except Age Concern Trust Corporation which is limited by guarantee.

Age Concern Insurance Services Ltd – Insurance for older people.

Age Concern Enterprise Ltd – Trading in gifts and services for older people.

Grandparents Day Ltd – Engages in activities to promote an annual grandparents' day.

Age Concern Shops Ltd – Not currently trading.

Winterbelle Ltd – Not currently trading.

Age Concern Trust Corporation – Holds property and leases on behalf of the National Council on Ageing. It does not trade.

How are charities accountable?

Age Concern Enterprises Ltd owns 75 per cent of Age Concern Care Ltd, which has an issued share capital of £1,000 and is trading in personal emergency response systems for elderly people.

These companies will be reorganised shortly and the lead company, Age Concern Enterprise Ltd, has a structural link with the charity in that the Honorary Treasurer is a member of the board.

Information for this research was provided by Robin Birch CB, Chairman of the Board of Trustees since 1995, recently retired Deputy Secretary at the Department of Health; Sally Greengross OBE, Director General since 1987 and with Age Concern England since 1979; Peter Knowlson, Secretary to the National Council.

Alzheimer's Disease Society

The Alzheimer's Disease Society is a registered charity and company limited by guarantee. It was founded in 1979 by a small group of carers in order to provide information and support for people who cared for those suffering from all forms of dementia. The company was incorporated in 1987 and its objects are 'to relieve, treat and promote the relief and treatment of people with Alzheimer's Disease and other dementias and provide support for such persons, their families and carers. To promote, support and carry out research, and to disseminate the results of such research for the public benefit into the cause and possible cures whether partial or complete, and the possible prevention of the said disease and other dementias'.

The primary aims of the Alzheimer's Disease Society are 'to give support to families and others concerned with Alzheimer's disease and other dementias by linking them through membership, branches and support groups'. Also to provide practical help and information to sufferers, carers and statutory and voluntary organisations. The campaigning role includes promoting the case for good quality services from assessment to hospital and residential services, research, public awareness, and political and media representations.

Until the mid 1980s the Alzheimer's Disease Society remained small and known only to a group of carers. Receipt of central government funding enabled the organisation to review its management and governance.

How are charities accountable?

Responsibility for overseeing the affairs of the Alzheimer's Disease Society lies with its national Council, a body of voluntary representatives which is elected by the membership. The Council has 24 members, 12 elected by 20,000 members, comprises three honorary officers and nine members. There are also 12 regional representatives who sit on the Council but are elected by their branches within their region.

Each year, all the honorary officers and one third of the members of the Council must stand down, but they may seek re-election and the membership is invited to nominate candidates for election.

The Council decides on a wide range of policy issues. Its members are the trustees of the charity and directors of the company. The Council delegates the day to day management of the organisation to the executive director and the paid staff at national and regional offices. There is also an Executive Committee which comprises the three honorary officers and four Council members elected by the Council. The Executive Committee acts on behalf of the Council in between its meetings and advises and assists the management in the conduct of the charity's business.

Apart from the management and governance of the charity there is a Medical and Scientific Advisory Committee which comprises experts in the medical and scientific fields. It is responsible to the Council and advises the organisation on medical and research issues. A Research Fellowship Panel, also comprising medical and scientific experts, allocates funds committed by the charity to research.

The Alzheimer's Disease Society has over 180 branches which use the parent's corporate and charitable registration, raise revenue and provide local services. These branches exercise a degree of autonomy and have locally elected committees, but exercise powers delegated by the Council and are required to conform to the parent charity's aims and rules. The accounts of branches are consolidated as for subsidiary undertakings.

The consolidated income for the year to 31 March 1995 was £8.84m and expenditure was £8.01m. Fixed assets totalled £1.52m. The staff complement was 470 of whom 413 were employed in care services.

Information for this research was provided by Bryan Roycroft, Chairman and member of the Council since 1995, and recently retired

Director of Social Services for Newcastle upon Tyne; also George Cyriax, Honorary Treasurer and a member of the Council since 1987, and the Managing Director of private sector companies; and Harry Cayton, Executive Director since 1992 and formerly Director of the National Deaf Children's Society.

Anchor – Working with Older People

The Anchor Group is the corporate identity, adopted in 1994, by a conglomerate of charitable and not-for-profit companies providing a wide range of housing and support services for elderly people throughout England. It operates under the Royal Patronage of HRH Princess Alexandra. The group consists of three main organisations: Anchor Housing Association, Guardian Housing Association and Anchor Housing Trust.

The Anchor Housing Association was founded in Oxford in 1968 as Help the Aged Housing Association to provide sheltered housing for rent. The Guardian Housing Association was founded by Anchor in 1972 to provide sheltered housing for sale. In 1978 the Anchor Housing Trust was founded to raise money and find new ways of helping older people.

The two housing associations are registered under the Industrial and Provident Society Acts. They have charitable status and are registered with the Housing Corporation which is the regulatory and funding authority for all housing associations in England. Anchor Housing Trust is a company limited by guarantee and a registered charity.

Other subsidiary companies have been established to achieve complementary objectives, beyond the scope of activities permitted by the registration of the three core bodies. Anchor Care was established for the development and management of domiciliary care services run under contracts with Departments of Social Services. Anchorcall is the

name given to the central control service which provides support for tenants. Anchor Staying Put provides help to elderly people to improve and adapt their homes.

In 1968 Anchor built the first housing scheme in Aldershot providing sheltered flats for 32 newly retired people. Since then it has built more than 630 sheltered housing schemes. The Anchor Group manages nearly 30,000 units of accommodation and is the UK's largest association and probably the largest independent provider of housing and care for older people in Europe. Anchor is also by far the largest housing association employer of staff because of its focus on care and support services as well as housing. Activities range from rented sheltered housing with varying degrees of care and support; sheltered housing for sale; housing with substantial personal care and some nursing; and support in order to enable people to remain in their own homes. The average age of tenants is 78.

The mission of the Anchor Group is 'dedicated to ensuring the well being of older people by:

- providing support, care and housing which meets their individual choices;
- creating opportunities for them to express their views;
- listening to what they want;
- involving them in planning services to meet their needs and preferences;
- promoting ideas, policies and actions which meet their aspirations;
- relating to and working with partners and local communities.'

The vision is that 'Anchor will be the acknowledged leader in promoting, developing and providing support, care and housing choices for older people'.

The members of the board of the Anchor Group are selected according to 'their skills, experience, interests and personal qualities;... the selection...is influenced by their ability to understand and appreciate

the significance and impact of Anchor's policies and practices on the communities and individuals it seeks to serve and a commitment to Anchor's mission and values'. The board comprises around 20 people, including the Chairmen of each of its 12 Regional Committees; this ensures that Anchor's national policies are also considered from a regional perspective. Each Regional Committee has up to ten members with interest in Anchor's activities in their local area, including two members selected from Anchor's tenants in the region.

Members of the board are appointed to act as trustees and not as delegates or representatives of particular interest groups or constituencies. Anchor has made extensive use of public advertisement as a means of recruiting board members and has also engaged professional search consultants to help 'headhunt' board members to fill specific vacancies. Board members are required to seek re-election every three years at the Annual General Meeting and are subject to a maximum term of office of 9 years. The Chairman is elected by the members of the board.

The board is responsible for establishing policies for the governance of the group and 'its governance role does not require it to assume direct management responsibilities'. It defines the objectives and priorities, sets strategies and frameworks and prescribes standards, principles and values to be followed. The board also establishes Standing Orders and Delegated Authorities, monitors and holds the Chief Executive to account for the performance of the organisation in terms of the targets to be achieved within the values and standards agreed.

The accounts of the Anchor and Guardian Housing Associations are consolidated and for the year to 31 March 1995 show income of £102.9m and expenditure of £94.6m. A transfer of £5.5m brought reserves to a total of £40.6m. Fixed assets less Housing Association Grant and mortgage loans were £95m.

The income of Anchor Housing Trust for the same period was £4m and expenditure including grants to the housing association were £4.1m with reserves of £2.8m.

The Anchor Group has 677 office based staff and 5,765 scheme and estate based staff including wardens, care staff and nurses.

Information for this research was provided by Patricia Tindale, board member since 1993, Chairman of the Regional Committee for London and a retired civil servant and architect; John Belcher, Chief Executive since 1994, formerly a local government officer and Bruce Moore, solicitor, Company Secretary and Head of Legal Services.

Crime Concern

Crime Concern Trust Limited is a registered charity and a company limited by guarantee. It was incorporated in 1988 on the initiative of the Government and with Home Office funding. The objects are 'to promote for the public benefit the protection of people and property from, and the prevention of, criminal acts in particular by:

- assisting in the establishment of neighbourhood watch schemes and encouragement of greater public participation in prevention and solution of crime;
- the provision of recreational activities for young people, and in particular those young people at risk of offending against the law, with the object of improving their conditions of life;
- researching into new techniques in local crime prevention and to publish the useful results of such research.'

Crime Concern describes itself as 'a national crime prevention organisation working with local partners to reduce crime and create safer communities.' It works in three ways. Firstly, by providing consultancy and developmental services to local government and other providers of public services. Secondly, by developing new approaches to community safety and crime prevention. Thirdly, by promoting social crime prevention through projects, publications, conferences and campaigns. Crime Concern is engaged with local authorities,

police and others to develop crime prevention partnerships in all areas throughout Britain by the year 2,000.

The work of Crime Concern is overseen by a board of 15 members which has representation from the main political parties, local government, the police and from the private and voluntary sectors.

These board members are all directors of the company and trustees of the charity. The original Chairman, Stephen Norris MP, was appointed by the Home Secretary. Mr Norris personally selected other board members and remained as Chairman until he was appointed Parliamentary Private Secretary to the Home Secretary in 1991. Subsequently new members are invited to serve by the existing members and formally approved by the Home Secretary. There is no process of election. The board has the power at any time to appoint a person to be a member of the board, either to fill a casual vacancy or as an additional member. A new Executive Committee comprising both trustees and executive management is to be established in 1996.

The consolidated income for the year to 31 March 1995 was £2.50m and expenditure £2.56m. Fixed assets were £150,000. There were 106 staff employed.

Crime Concern Services Limited is a wholly owned trading subsidiary set up to provide consultancy services in the crime prevention field which covenants its taxable profits to the charitable company. Its income was £504,000 and expenditure £500,000.

Information for this research was provided by Tim Clement-Jones CBE, Chairman for four years, a member of the board since 1988 and a director of a private sector company; and Nigel Whiskin MBE, Chief Executive since the formation of Crime Concern in 1988.

NCH Action for Children

The Children's Home was established in 1869 by the Reverend Thomas Stephenson. In 1932, by which time the organisation was known as the National Children's Home and Orphanage, it became the subject of a 'Charity Commission Scheme'. This decreed, among other things that half of the trustees should be Ministers of the Methodist Church appointed by the 'Yearly Conference of the People called Methodists' and the remaining half should be Methodists but not Ministers.

The aim and purpose of NCH Action for Children as registered with the Charity Commission is, 'The provision and maintenance of homes and other services for the care, education and training of children deprived of a normal home life'. The organisation has more recently redefined its Statement of Purpose in the following terms, 'NCH Action for Children exists to remedy deprivation and enhance the quality of life for children, young people and families in need through the provision of high quality services, and by advocating on their behalf in the context of a multiracial society'.

Although NCH Action for Children has its roots within the Methodist Church and individual Methodists continue to be influential, the organisation seeks to deliver its services to all children in need irrespective of their faith or ethnic background.

NCH Action for Children is formally administered and managed by the Methodist Conference which appoints the Council of 20 members.

The Conference may delegate to the Council all of its powers and duties, except the power of appointing trustees of the charity. The Methodist Conference has also reserved to itself the powers of appointing the Chair and Vice-Chair of NCH Action for Children and the Pastoral Director, on the recommendation of the Council. While the Council members are the charity's trustees within the meaning of the Charities Act, the Charity Commission Scheme also provides for the appointment of a Board of Trustees in addition to the Council. This board which is appointed by the Methodist Conference acts as custodians or holding trustees whose function is simply to hold legal title to the charities' property and investments. They have no role in the management of NCH Action for Children and must act on the instructions of the Council who are the managing trustees, unless they are told to do something which is in breach of trust.

The Council is responsible for setting NCH Action for Children's policies, objectives, Strategic Plan and annual budget. New members of the Council are required by a Code of Practice to make themselves conversant with previous and current policies and plans. In addition to describing the duties of Council members and the contributions they are expected to make to the governance of the organisation, the Code also requires them to have or to acquire an awareness and understanding of the social, political and economic environment in which the organisation operates and to accept the need to undergo training.

The normal term of office for a member of Council is six years. However, all members are subject to annual reappointment by the Methodist Conference. On appointment to the Executive Committee or the Social Work Committee the period of six years recommences from the date of appointment.

The Executive Committee is made up of the Chair and Vice-Chair of NCH Action for Children, five members appointed by Council and the Chair of the Social Work Committee. This committee has wide ranging management responsibilities and meets with the Chief Executive at least four times a year and more frequently if it so determines.

The Council has appointed numerous subsidiary and project committees. The major committees are for Social Work, Scotland, Superannuation,

the NCH Action for Children Adoption Agency and there are additional committees with responsibility for local projects, children's homes, family centres and other activities. Also Boards of Governors are appointed for all the schools run by the organisation. In all, more than 600 people serve as voluntary members of committees and sub-committees of NCH Action for Children.

The Principal and Chief Executive is appointed by the Council and responsible to it for the day to day management of the organisation and implementation of policy. The Chief Executive and the Senior Management group are also required by the Code of Practice to furnish the Council and the subsidiary committees with all the briefing they need to assist them in the execution of their duties.

The consolidated income for the year to 31 March 1994 was £44m and expenditure £47.3m. Fixed assets were £28.9m. Two thousand two hundred staff were employed.

NCH Action for Children Limited is a wholly owned subsidiary registered in England and Wales and concerned with trading activities. Cumberlow Community Limited is an investment company but is never likely to benefit from the investment other than interest on the loan and accordingly the investment does not meet the definition of an associated undertaking. There are also five associated trusts which have common trustees with NCH Action for Children. These held funds of £1.66m. Certain of these assets are in use by the charity and the income applied for its benefit. The organisation is also concerned with a number of childcare and training projects in the Caribbean, Belize and Zimbabwe.

Information for this research was provided by Sir Michael Checkland, Chair of the Council since 1991, recently retired Director General of the BBC and Tom White CBE, Principal and Chief Executive since 1990 and previously Director of Social Work.

National Council for One Parent Families

The National Council for One Parent Families (NCOPF) is a registered charity and a company limited by guarantee. It began in 1918 as the National Council for the Unmarried Mother and her Child when for most unmarried mothers the alternative to the workhouse were either a situation in domestic service where they would be allowed to keep their child or alternative employment and boarding out of the child.

In 1971 the National Council adopted its present name and changed its role to include all one-parent families, catering for all lone parents whether unmarried, divorced, separated or widowed.

The principal object for which the Council is established is set out in the Memorandum of Association of the company in 1994 as: 'To relieve suffering among persons who are members of one parent families and so that for the purposes of this Memorandum and of the Articles of Association a person is, was or will be a son or daughter of parents who have never been married to each other or who (by reason of death or for any other reason) are not living together or a parent or prospective parent of such a son or daughter as aforesaid and for that purpose to act as a central organisation in Great Britain'. The work of the Council combines service provision with policy research and campaigning.

The auditors, in the preamble of the 1994-95 accounts, describe the principal activity of the company as 'the provision of information and training services to lone parents and the professionals who work with them'.

How are charities accountable?

The campaigning role of NCOPF is written into every page of the organisation's history, from lobbying about the Maternity and Child Welfare Act in 1918 and the reform of the Bastardy Acts and Affiliation Orders Act to more recent work concerning the Child Support Agency, housing, divorce and social security legislation.

The membership of the Committee of Management is composed of a maximum of 16 members and five co-optees who are elected by individual members of the Council. There are a total of 700 members and admission to membership is admitted by a resolution of the committee. The committee is expected to comprise a range of skills and experience relevant to the aims and needs of the organisation. Members of the committee are nominated by the membership and elected by those members of the company who attend the AGM. Committee members retire after three years but may offer themselves for re-election.

The income for the year to 31 March 1995 was £765,180 and expenditure £771,310. The fixed assets were £21,356. Twenty five staff are employed. There are no trading or subsidiary companies.

Information for this research was provided by Anne Spackman, Chair of the Committee of Management since 1992, a member of the committee since 1989 and journalist; and Karin Pappenheim, Director since 1995 and formerly, with the Family Planning Association.

Oxfam

Oxfam is a registered charity and a company limited by guarantee. Founded in 1942 and first incorporated in 1958 as the Oxford Committee for Famine Relief, its change of name to Oxfam was certified in 1965. Its objects commit the charity 'to relieve poverty, distress and suffering in any part of the world (including starvation, sickness or any physical disability or affliction) and primarily when arriving from any public calamity including famine, earthquake, pestilence, war or civil disturbance) or the immediate or continuing result of want of natural or artificial resources or the means to develop them and whether acting alone or in association with others, and in particular but without prejudice to the generality of the foregoing for that purpose to provide food, healing, clothing and in connection therewith to educate the public concerning the nature, causes and effects of poverty, distress and suffering as aforesaid, to conduct and procure research concerning these and to publish or otherwise make the results thereof available to the public'.

Oxfam began in 1942 when the Oxford Committee for Famine Relief was one of several groups set up around Britain aiming to highlight the suffering caused to civilians in Greece by the Nazi occupation and the blockade imposed by the Allies. In 1943 the Committee registered as a charity and ran its first 'Greek Week' appeal which raised £12,700. After the war the committee continued to raise funds for war refugees and opened the first permanent charity shop in Oxford.

When the need for post-war relief aid declined, and many of the relief committees closed down, members of the Oxford Committee wanted to keep on helping where they could and extended their charitable aims to include 'the relief of suffering arising as a result of wars or other causes in any part of the world'. Following this the Committee provided clothes and supplies to refugees in the Middle East, for those left homeless or orphaned by the Korean war, and in the 1960s supported work with victims of both famine and civil war in the Congo, Biafra and India.

During the 1960s Oxfam became directly involved in a long term emergency for the first time, sending a team of young people to help a feeding programme, rather than simply providing a grant. At the same time Oxfam began to undertake non-emergency work, supporting self-help schemes through which communities could improve water, farming and health.

As Oxfam's experiences overseas changed, the charity started to present a different picture of poor people in the Third World. Education and information materials explained the root causes of poverty and the role of people in the North in creating and potentially solving large-scale problems. Wherever possible Oxfam employs local people. Oxfam also aims to ensure local partners have a strong say in running the schemes which it supports.

In the 1970s Oxfam decided that, within the bounds set by charity law, it should campaign on behalf of the people it works with overseas and influence decision makers who could have an impact on world poverty.

Oxfam has more high street shops than any other charity in Britain and they are an important source of income. Wastesaver recycles old clothes and materials like aluminium; and Oxfam Trading, through the Bridge scheme, markets more than handicrafts, for example it increasingly markets food products such as coffee, tea, chocolate and honey from the South, giving producers fair prices and support through training, advice and funding. Oxfam Trading also runs a mail order catalogue.

Oxfam now has sister organisations in the United States, Canada, Australia, New Zealand, Belgium, the Netherlands, Quebec and Hong

Kong. There is also Oxfam International, a separate legal entity which exists to ensure cooperation and joint work between the Oxfams. Oxfam in Britain and Ireland funds development and relief work in over 70 countries in the South as well as some in Britain, and is run by both paid professional staff and a wide network of volunteers.

For the most part, 'Oxfam funds and supports small projects overseas run by local people whose knowledge and contacts ensure that money and effort are used as efficiently as possible.' 'Oxfam's programme today, in both the North and the South, aims to help poor people claim their basic rights to employment, shelter, food, health, and education; to recognise women's special needs and capabilities; to help people win a say in decisions which affect their lives; and to support their efforts to live in ways that won't destroy the environment.'

The governing body of Oxfam is the Council which consists of approximately 20 trustees who are appointed 'because of their commitment and personal qualities, and their knowledge and experience relevant to the responsibilities of trusteeship and the range of Oxfam's work'. In addition there is an Association which consists of up to 60 members who are former trustees, current trustees and others from among whom it is expected some future trustees will be nominated.

The Council meets eight times a year and is ultimately responsible for the overall governance of Oxfam. The Association has the power to appoint and remove trustees, to approve the audited accounts and receive the annual reports. Both trustees and Association members serve for an initial period of three years. Trustees may be re-elected by Association members for one further three-year term. Nominations for potential trustees and Association members are canvassed from a wide range of individuals and organisations believed to be interested in the work of Oxfam. A search is conducted for the identified skill needs.

The consolidated accounts for the year to 30 April 1995 show total income of £99.7m of which £28.9m was in the form of grants from the UK Government, the European Union and the UN, and expenditure of £103.1m of which direct charitable expenditure was £92.9m. A £3.8m call reduced reserves to £7.3m. Fixed assets were £15.6m. About 30,000

How are charities accountable?

people across Britain and Ireland give their time to Oxfam as volunteers. There were 1,256 staff employed in Britain and a further 1,627 staff based overseas on local contracts.

Information for this research was provided by Joel Joffe, Chair of the Council since 1995 and a member since 1980, a recently retired private sector director and David Bryer, Director of Oxfam since 1992 and working for Oxfam since 1975.

People's Dispensary for Sick Animals

The People's Dispensary for Sick Animals (PDSA) is a charitable society incorporated under its own Act of Parliament, the People's Dispensary for Sick Animals Act 1949. In 1956 an amending Act was passed making important changes to the society's powers of investment. It was founded in 1917 by Maria Elizabeth Dickin CBE 'for the treatment of sick and injured animals owned by those who are unable to pay for the treatment thereof and for the reception of sick and injured animals for the purpose of healing'.

PDSA was first incorporated under the Companies Acts of 1908 and 1917 as a not for profit company and limited by guarantee and without share capital. The society has enjoyed Royal Patronage since 1922. HRH Princess Alexandra is the current Patron.

Maria Dickin recognised that 'to many thousands of poor people an animal is essential. Such men as small greengrocers, fishmongers, hawkers of wood, costers and many others depend entirely upon a donkey or a pony in order to make a living. Thousands of others, would have their poverty stricken homes, near the docks especially, overrun with vermin if they did not keep a cat'.

Maria Dickin collaborated with a local vicar and obtained the use of a small cellar in the East End of London which became the first dispensary. Local people were invited to 'Bring your sick animals – Do not let them suffer – All animals treated – All treatment free'. By 1945 PDSA had become the largest international charity of its kind with

operations throughout Britain and eight other countries from Egypt to South Africa. Its income from donations rose from £721 in 1917 to £85,000 in 1940, with a single legacy of £51,540 in 1926.

Social changes, since the days of the first dispensary, have shifted the emphasis from the care of working animals to solely that of animals as companions. Facilities have improved from the one-man dispensaries to modern purpose-built hospitals with comprehensive surgical and in-patient provision and staffed by up to six veterinary surgeons. The quality of care has advanced with the progress of veterinary science.

The objects of the society, set out in the Act are to provide 'free medical or surgical treatment to animals belonging to the persons who appear to the society to be unable to afford the services of a veterinary surgeon and to do all such other things as are incidental or the society may deem conducive to the attainment of those objectives.'

Eligibility for the society's free service is now restricted to the most financially disadvantaged members of the community who are identified as being householders in receipt of one or more of the following means-tested state benefits: income support, family credit, housing benefit and disability working allowance. Homeowners in receipt of council tax benefit who receive either state retirement pension or widows benefit are also eligible.

PDSA receives no government funding and is entirely dependent on public support to sustain all its work and services.

The governing body of PDSA is its Council and this is subject to the provisions of the Acts and the bye-laws which control the property and conduct of the affairs of the society. The first Council was that which was in place at the time of incorporation in 1949. Subsequent members are admitted wholly at the discretion of the present members of the Council. The Council is required to consist of not less than seven members, one of whom will be the Director General if he qualifies with at least five years service with the society.

At its Annual General Meetings, two councillors retire but may offer themselves for re-election by the members, most of whom are councillors. Only members may seek election to the Council and they

must be nominated by three present members. Casual vacancies may be filled by the Council in between general meetings. The present size of the Council is 15 and all Council members are trustees of the charity. It meets four times each year. In addition there is a Finance and General Purposes Committee which consists of seven members of the Council including the Director General and is primarily concerned with the management of PDSA's investments.

PDSA has no popular membership or branches and its structures enshrine the oligarchy of its founder. It has support groups which raise funds, all of which are held centrally.

The consolidated accounts for the year to 31 December 1994 show gross income of £21.9 million and expenditure of £21.2 million with £666,000 transferred to reserves. Legacies make up 67 per cent of PDSA's income. The fixed assets of the group were £46.1 million. In the same period PDSA had 570 veterinary staff, 166 engaged in fundraising and publicity and a further 50 in administration. The accounts include the following wholly owned subsidiary undertakings:

PDSA Property Services Limited – construction of new buildings for PDSA.

PDSA Retail Limited – retail shops and house clearing service.

PDSA Trading Limited – direct mail activities including lotteries and mail order.

Information for this research was provided by Francis Butters, member of the Council from 1976 and Chairman from 1987 to 1994, a retired public relations consultant; and Malcolm Curtis, Director General since 1984.

Royal Opera House

The Royal Opera House Covent Garden is a company limited by guarantee and a registered charity. The principal activities of the company are presentation of opera and ballet performances at the Royal Opera House, Covent Garden, at the Birmingham Hippodrome, and on tours in the United Kingdom and overseas.

The Theatre Royal Covent Garden began in 1728 when actor/manager John Rich commissioned *The Beggar's Opera*. The success of this venture provided the capital for the first Theatre Royal. This was burned down in 1735 but replaced soon after. For a hundred years or so the theatre was primarily a playhouse. Letters Patent granted by Charles II had given Covent Garden and Drury Lane almost sole rights to present spoken drama in the capital.

Serious music was heard in Covent Garden from 1735. The theatre was again destroyed by fire in 1808 and the third theatre was opened with a performance of *Macbeth* in 1809. This too was burned down in 1856; the present theatre opened in 1858 and has provided winter and summer seasons of opera and ballet, with intervals of such diverse fare as film shows, cabarets and dancing for most of the time since then. During the first World War it was requisitioned as a furniture repository and in the second World War it became a Mecca Dance Hall.

In 1945 Dame Ninette de Valois' Sadlers Wells Ballet was invited to become the resident ballet company. In 1946 David Webster and Karl Rankl began to build a comparable resident opera company and this

became The Royal Opera. The Royal Ballet and The Royal Opera were granted their Royal Charters in 1956 and 1968 respectively.

The company was incorporated in 1950 and has as its principal objective 'to promote and assist in the advancement of education so far as such promotion and assistance shall be of a charitable nature and in particular, so far as of a charitable nature, to raise the artistic taste of the country, and to procure and increase the appreciation and understanding of musical art in all its forms.'

All three performing companies of the Royal Opera House have recently reconsidered their aims, reassessed their purpose and restated their objectives. 'Within the aspiration to be at the heart of the nation's artistic and cultural life, the aims of the Royal Opera House are:

- to present high-quality opera and ballet to the highest possible standards;
- to offer a wide range of repertory that includes new and lesser-known works as well as the established classics;
- to encourage and promote creativity in composition, production, choreography and design;
- to promote and provide performance opportunities for the development of British orchestral musicians, singers and dancers.'

In pursuing these aims, The Royal Opera House and its Companies seek the following purposes:

- to provide the widest possible access to opera and ballet;
- to extend public understanding and enjoyment of opera and ballet;
- to act as cultural ambassadors for the nation through tours by the three Companies overseas;
- to preserve and develop opera and ballet for audiences of today and tomorrow.

Much of the work of the Royal Opera House involves managing major commercial enterprises with spectacular opera and ballet productions, box office and catering income of £28m and production costs of £45m. However there is also a continuous programme of education projects, taking opera and ballet into schools, colleges and community groups. For example 14,000 children attended school matinees and each matinee is preceded by a study day for teachers and information to assist with the preparation for performance. Also 13,500 young people attended school matinee performances of the Birmingham Royal Ballet which were presented in Birmingham, Bradford and Plymouth.

The Royal Opera House aims to extend audiences, including those from ethnic minorities, through a programme of education and outreach work, and to exploit opportunities to increase access to the work of the companies by means of video, film, television and radio broadcasts.

The governing body of the Royal Opera House is the board of directors. Its members who are also trustees of the charity are proposed by the existing board to the Secretary of State at the Department of National Heritage and usually approved. In addition, the Secretary of State may offer her own suggestions, but her power to approve or disapprove of any particularly appointment is unfettered. The Chairman is chosen from amongst the members, subject to the Secretary of State approving the board's choice.

Members of the board are expected to retire after serving for five years, but may offer themselves for re-election by their peers. Until recently there was no limit to the number of terms a director may serve. In 1989 the board reviewed the practices relating to appointments and reappointments. It was mindful of the desirability 'particularly in a board which is not self-appointed, that there should be a sufficient rate of turnover in the membership to avoid the danger of the board appearing to be a closed and self-perpetuating body'. Lord Sainsbury, the then Chairman, proposed and it was resolved that there should be no change to the initial five year terms of office, but that thereafter reappointments should normally be for a period of not

more than three years. Also, reappointments 'should not be regarded as automatic, and will be dependent on there being particularly good reasons for reappointment'.

It was further resolved that 'a director who has served two terms should not be eligible for further reappointment save in the case where the director concerned holds or is shortly to hold office as Deputy Chairman of the main board or as Chairman of a subsidiary board or as Chairman of the Royal Opera House Trust or as General Director'. By this means the senior non-executive directors of the Royal Opera House often serve for longer than eight years.

Members of the board appoint the General Director of the Royal Opera House and he may also serve as member of the board subject to the consent of the Charity Commissioners.

In addition to the main board chaired by Sir Angus Stirling, there are subsidiary boards: the Ballet Board, chaired by Baroness Blackstone; the Opera Board, chaired by Sir James Spooner; the Birmingham Royal Ballet Board, chaired by Colin Nears; the Development Steering Group, chaired by Sir Angus Stirling; and a Finance and Audit Committee, chaired by Sir James Spooner. The present General Director, Sir Jeremy Isaacs, sits as a trustee and member of the main board as well as all the subsidiary boards including the Finance and Audit Committee.

The Royal Opera House Trust raises money for the three performing companies and promotes sponsorship for opera and ballet productions. The chairman of the main board and the General Director are *ex-officio* trustees of the Royal Opera House Trust.

Delegation to the General Director and the senior executive managers of the Royal Opera House for the achievement of objectives determined by the Board and the Arts Council is not defined. This is a matter of practice and convention rather than standing orders.

The Royal Opera derives 58.7 per cent of its income from box office and ancillary sales, 26.2 per cent from the Arts Council and 15.1 per cent from private funding. The Royal Ballet derives 40.7 per cent from box office, 40.2 per cent from the Arts Council and 19.1 per cent from private funding. The Birmingham Royal Ballet derives 25.4 per cent

How are charities accountable?

from box office, 49.8 per cent from the Arts Council and 24.8 per cent from private funding.

The total income for the three performing companies was £57.5m for the year to March 1995 and expenditure was £57m. The Royal Opera House Trust raised £7.2m and produced a net surplus for the year of £6.7m and, with funds from reserves, allocated £7.5m to the Royal Opera House to help cover running costs. The fixed assets are misleading as freehold premises which are insured at £84m are stated in the accounts at a nominal figure of £1. There are 1,071 staff employed.

Information for this research was provided by Sir James Spooner, Deputy Chairman of the main board, a member since 1987, and a director of a major private sector company; and Clive Timms, Company Secretary and Director of Finance and Resources.

Scope (formerly The Spastics Society)

Scope is a registered charity and a company limited by guarantee. It was formed in 1952 as the National Spastics Society and in 1962 joined with the British Council for the Welfare of Spastics to become the Spastics Society. Its name was changed to Scope in 1994. Its objects provide for 'the care, welfare, interest, treatment, education and advancement of persons with any form of cerebral palsy or with a related disability'.

The Memorandum and Articles of Association of the company describe the principal objects as 'to provide, maintain and conduct clinics, treatment and training centres, residential schools, homes, centres and workshops, day schools, nurseries, employment centres, holiday camps and homes, clubs and other foundation; and to provide and encourage the provision of facilities for diagnosis, medical, physical and surgical treatment with all necessary appliances, physiotherapy, speech therapy, and education whether infant primary, secondary (modern, technical or grammar), university or otherwise. Other clauses refer to collection and dissemination of information and promoting and conducting research and experimental work calculated to be of benefit to persons with any form of cerebral palsy or with a related disability and into the prevention of cerebral palsy. Scope may also provide financial assistance, make grants and donations, provide equipment and apparatus and such other assistance to individuals and other bodies to be of benefit to persons with cerebral palsy.'

How are charities accountable?

In 1990 Scope described its purpose as:

- ‘We exist to enable men, women and children with cerebral palsy and associated disabilities to claim their rights, lead fulfilling and rewarding lives and play a full part in society.’
- ‘We shall achieve this purpose through a wide range of activities and services which respond to individuals’ needs, choices and rights.’
- ‘Our services and activities will include creating housing, education and employment opportunities; expert and loving care; support for families and carers; research; advocacy, information and advice services; support for self-help groups; campaigning and other activities designed to help change public behaviour.’

Scope is a national organisation with 240+ affiliated local groups, some of which provide services and fundraise. Such local groups may also receive services and grants from the centre.

The Executive Council is elected by members of the company. These may include ordinary or life members, members of the Executive Council by appointment but usually by election, a nominee from each affiliated group or other organisations which, in the judgement of the Executive Council is committed to the objects and work of Scope. There are about 340 members.

The Executive Council may not exceed 30 members, of whom 15 are elected at the Annual General Meeting. One third of the members of the Executive Council retire each year and may offer themselves for re-election.

The Executive Committee meets quarterly, but also comprises six ‘main board committees’ which also meet quarterly, two advisory and consultative bodies which meet quarterly and five lead bodies which meet as required. All are composed of Executive Council members and other non-executive directors/trustees with the addition of co-options. Senior management is required to attend the meetings of these committees.

The income for the year to 5 April 1995 was £77.8m and expenditure £79.4m. Fixed assets totalled £35.3m. The staff complement was 3,803. These statements relate to Scope and have consolidated the company's interest in the following subsidiary undertakings.

Friends of Spastics League – Common trustees. Charitable trust.

Scope Central Trading Ltd (formerly Spastics Shops Ltd) – Purchase and sale of material and greetings cards.

Gold Appeal Ltd – Purchase of electricity, gas and fuel oil and sale thereof to Scope.

In 1955 a group of celebrities wished to support the work of the Spastics Society and formed the Stars Organisation for Spastics. This is a separate registered charity and there is no duplication of trustees, staff or premises. The Stars Organisation for Spastics has raised a gross sum of £10m. While it is committed to support Scope it has also made donations to other organisations from time to time.

Information for this research was provided by Anthony Hewson, Chairman since 1991, a member of the Executive Council since 1990 and the Managing Director of a private sector company; and Richard Brewster, Chief Executive since 1995 and with Scope since 1989.

Shelter

Shelter is a registered charity and a company limited by guarantee. It was formed in 1966 by a group of housing bodies and concerned individuals who joined together to raise funds and to campaign for homeless people. The full title is Shelter, National Campaign for the Homeless Limited. It is the largest national homelessness charity and campaigns for the right of homeless people for a permanent home and provides direct services for homeless people.

Shelter's charitable objects are: 'To relieve hardship and distress among the homeless and among those in need who are living in adverse housing conditions; to make monies available to housing associations and other bodies (whether corporate or not) whose aims being charitable are the relief of such hardship and distress; to relieve poverty and distress; to educate the public concerning the nature, causes and effects of homelessness, human suffering, poverty and distress as aforesaid and to conduct and procure research concerning the same and to make available the useful results thereof to the public.' These objects were most recently amended in 1993.

The campaigning role of Shelter is also described in the Memorandum and Articles of Association and allows the charity the following powers: 'To inform and educate the public concerning its charitable purposes and the means of advancing the same; to make reasoned responses to proposed legislation (national or European) or

other government measures; to communicate with government (national, local and European) or charitable bodies.

Shelter is the only national provider of free impartial and specialist aid and advice to anyone who is homeless or has housing related problems. There are 48 housing aid centres, either managed or funded by Shelter, which provide advice, assistance and advocacy.

The membership of the Board of Management is limited to a maximum of 14 who are also members of the company. Membership is effectively by the invitation of the present members. The board members are expected to have a range of experience and skills relevant to Shelter's role as a major national housing charity, involved both in campaigning and providing services. The board is also required to strive to have among its membership a broad geographical spread, including Scotland and Wales as well as the different regions of England and a balance in respect of gender, ethnic origin, age regardless of sexual orientation, which is broadly representative of the community as a whole.

The committee may admit such persons as it may think fit as friends or associates of the company and for them to have the rights, duties and liabilities of members but such rights shall not include the right to speak or vote at general meetings.

The income for the year to 31 March 1995 was £11.20m and expenditure £11.13m. The fixed assets were £2.66m. Three hundred and fifteen staff are employed excluding Shelter Shops staff.

Shelter has two trading subsidiaries. Shelter Merchandising is a network of 67 shops that is run through a Management Board. Shelter Trading deals with Shelter's Christmas catalogue and, although a separate company, is part of the Fundraising Division.

Information for this research was provided by Christopher Pryce, Chair of the Board of Management since 1993 and a member of the board since 1978. He is a management consultant. Chris Holmes has been Director since 1995 and was previously Director of Housing at the London Borough of Camden.

Yorkshire Metropolitan Housing Association

Yorkshire Metropolitan Housing Association (YMH Association) is a non-charitable association which was established in 1974, is registered under the Industrial and Provident Societies Act 1965 and a company limited by guarantee. Its rules comply with the model approved by the Housing Corporation and the Registrar of Industrial and Provident Societies and the principal objects of the Association shall be to carry on the industry, business or trade of 'providing, constructing, improving or managing housing to be kept available for letting or hostels.' The remaining objects are to facilitate this.

There is also a registered charity, the Yorkshire Metropolitan Housing Foundation (YMH Foundation) which is a company limited by guarantee. This was formed in 1991 and aims to provide relief to persons who are in a condition of need with regard to housing. The principal activities of the charity are the provision of counselling and support services to elderly and other vulnerable homeowners to enable them to improve their quality of life. Also the provision of services in schools and educational material about housing and advice to pupils and students to help them to avoid housing problems in the future.

Since 1991, YMH Association has developed a vigorous policy of promoting local shareholding membership of the association, particularly by tenants. There are now 425 members, 70 per cent of whom are tenants. The Committee of Management presently comprises ten

members who are elected by the members at the Annual General Meeting. A third retire annually. Four places on the Committee of Management are designated specifically for tenants of the association.

In addition there is a District Coordinating Committee which is made up of five members, all of whom serve on the Committee of Management. There are then seven District Committees. Half the members are tenants and these committees monitor the progress of the association locally against agreed targets including housing management, maintenance and development.

The charitable YMH Foundation works under the trusteeship of YMH Association Ltd. There are six individual trustees, only one of whom is a member of the Committee of Management of the YMH Association. The trustees are also members of the company. One third of the trustees retire each year and may offer themselves for re-election by the remaining members.

YMH Association's income for the year to 31 March 1995 was £11.5m (including £9.7m in rent) and £2.2m was transferred to an accumulated surplus of £11m. Fixed assets less Housing Association Grant and depreciation were £35m. There were 95 staff employed.

The YMH Foundation's income for the year to 31 March 1995 was £410,000 and expenditure £404,000. Fixed assets were minimal. Twelve staff were directly employed by the charity.

Information for this research was provided by Muriel Stammers MBE, retired Civil Service Principal, Member of the Committee of Management since 1987 and Chair of a District Committee; Bill Payne, Chief Executive since 1989 and also President of the Chartered Institute of Housing 1995/96 who was previously with Moat Housing Association; and Sue Chandler, Assistant Company Secretary.

PART III

Observations and recommendations on governance and accountability

Throughout this inquiry information has emerged from the discussions with the Chairmen and Chief Executives of the leading charities. These interviews and the study of governing instruments have revealed an extraordinarily diverse range of approaches to such key issues as the selection and appointment of trustees and the ways in which the charities hold themselves accountable to a wide or narrow range of stakeholders.

A significant factor is that many charities are now operating in an environment which is different and often much more turbulent than the one for which their governance structures were designed. A significant agent of change in this respect has been the development of the contract culture during the last decade.

Furthermore, charities can no longer expect to operate in a gilded cage and be isolated from the critical and sometimes hostile scrutiny of an interested public. Neither Cadbury, Nolan, nor Greenbury has been concerned with charities, but they have contributed to a climate in which the issues of governance and accountability are more keenly debated. Charities cannot stand aside and expect to be exempt from such public attention.

It is not within the purpose of this research to pass judgement on any of the charities which have been considered or to indicate which aspects of their conduct are right or wrong, or better or worse than others. However, a number of factors have become apparent and

How are charities accountable?

indicate a list of questions and pointers which merit consideration by all concerned with charities and their stakeholders including trustees, executive management, donors, staff, customers, suppliers and beneficiaries.

It would not be realistic for an individual, corporate or trust donor to require every charity to jump through the same hoops. Different circumstances prevail. However it would be appropriate for questions to be asked about all these observations and recommendations. If a charity cannot demonstrate that these issues have been addressed, there might be cause for concern about its standards of governance and accountability.

Recommendations on general themes

More people contribute to charities, including those who contribute indirectly through the national lottery, than are personal shareholders in commercial companies. The new Statement of Recommended Practice will give access to hitherto unavailable data about charities and enable people to assess relative performance. The best charities will ensure that this information is widely available to stakeholders.

The new Statement of Recommended Practice will require much greater disclosure including a statement of each charity's mission and its strategy for achieving this. Stakeholders, including donors, should study these new and more comprehensive annual reports before deciding on the form of relationship with a charity.

While charities can be expected to show their best face to the public via their annual reports, the days are finally over for these documents, containing very little financial or management information, to be indistinguishable from fundraising leaflets.

Many charities contract with central or local government or intermediate agencies to deliver public services with a combination of public and charitable funds. In these circumstances it can be difficult for a consumer of services to identify the provider in order to register a complaint or grievance. The status and identity of such service providers should be readily available to the public.

Recommendations on trustees

Charities have developed different means of recruiting, selecting, electing and appointing trustees. A uniform procedure would not satisfy the genuine need for diversity. But, at the least, the process used by each charity should be transparent and broadcast to stakeholders.

Charities should have a formal procedure for identifying potential trustees. The procedure should take account of the need to produce person and job specifications and the need to produce a balanced board. Consideration should be given to the use of advertising either for specific vacancies or in general terms (as recommended for the conduct of Training and Enterprise Councils in the second report of the Nolan Committee).

Where trustees have traditionally been selected by the existing trustees or a very small electoral college, means should be introduced to limit personal patronage.

Recent legislation clarifies the duties of charity trustees and emphasises their onerous responsibilities and the potential for personal liability. Charities should ensure that all present and new trustees are fully apprised of their status and afforded suitable training.

In-house training for trustees might not be sufficient to enable them to effectively challenge the executive management of a charity. Trustees should have an option of independent, external training which might be provided by the Charity Commissioners and umbrella bodies.

There is often an assumption that trustees from the private sector bring the necessary skills to a charity and do not need further training. But they are required to operate in a different environment and accept greater personal liabilities than directors of commercial companies. Specially matched training should be encouraged.

Some charities are strengthened by the inclusion of representatives of beneficiary groups among the trustees. As with private sector trustees, this group might have particular training needs and these should be met either internally or externally at the discretion of the trustees rather than the executive management.

It is a criminal act for a person to continue to serve as a trustee while disqualified due to unspent convictions, offences involving dishonesty and other factors. Yet there is no duty on a charity to satisfy itself that the trustees are not so disqualified. Self-disclosure might be inadequate in these circumstances and unfairly place other trustees at risk. The Charity Commissioners should reconsider the feasibility of 'policing' the register of trustees which is submitted with each charity's annual return.

Charity trustees should comply with a pan-sector requirement to register their pecuniary and other relevant interests in a standard form and allow such registers to be open for public inspection. All stakeholders, but especially donors and suppliers, should have regard for such registers.

The deep commitment of trustees to the cause of a charity is often the factor which persuades them to donate so much time, expertise and effort. Some are understandably involved with the class of beneficiaries. Registers of trustees' interests should thus include the disclosure of non-pecuniary interests. By this means stakeholders would be enabled to question whether such interests are exercised improperly or inappropriately.

Recommendations on governance

The capacity of trustees to govern and to effectively control charities is dependent partly upon the quality and relevance of the management information which is made available to them by the executive managers who are not themselves trustees. Both trustees and managers should give careful consideration to the form and nature of the management information which is required and ensure this is periodically reviewed.

There is a debate about whether the Chief Executive and some other members of the senior executive management team should also serve as trustees of the charity. This is not usually allowed at present, but often exists *de facto*. Charities should review the proximity and form of the relationship between trustees and executive management, bear in mind the messages this sends to staff and other stakeholders and consider a statement on the respective roles and responsibilities of these parties.

The trustees are formally responsible for all aspects of the conduct of charities in a way which is far beyond the duties of non-executive directors of private sector companies. This includes, for example, all decisions which concern charitable property. As it is unrealistic to expect trustees to be personally engaged with many hundreds of property transactions, (which might include hundreds of charity shops), it is essential for crystal-clear procedures to be established for the effective discharge of delegated authority.

Short term and commercially unsound contracts represent a substantial risk for some charities and can cause them to be over-exposed. Steps should be taken to ensure that trustees are sufficiently well-informed of the risks to make sound decisions.

Contracts to deliver public services are sometimes exchanged at a comparatively junior level. Charities should manage this risk by ensuring competence at the appropriate level. Contractual partners should also be aware of the status and substance of the charities with which they contract.

Charities have often been behind the private sector in establishing Audit Committees which are independent of the executive management. All charities should have independent Audit Committees. Independence can be demonstrated by the non-executive composition of the membership and the establishment of such procedures as to allow the statutory or internal auditors to report directly to the committee, rather than via the executive management, in those circumstances where this is deemed necessary.

Recommendations on accountability

The definition of stakeholders is wider and more complex for charities than for private sector companies. In addition to customers there are beneficiaries, instead of shareholders there can be members who do not 'own' the charitable company and donors do not equate with bankers or institutional investors. Because of this complexity charities should publish annually a list of stakeholders to which they consider themselves accountable.

Having determined and published the list of its stakeholders, charities should take the next step to declare how they aim to discharge this accountability. This would provide a statement against which stakeholders could conduct convenient and appropriate audits of a charity's accountability.

There is within the charity sector, as within the private sector, a concentration on the need for accountability to those stakeholders who can exercise sanctions, for example by withdrawing services or donations. There is thus a special duty on charities to declare how they aim to be accountable to those stakeholders who cannot exercise sanctions, notably the beneficiaries.

Trustees often adopt a low profile leaving it to the executive management to be the visible representatives of the charity. It is important and need not undermine the executive management's functions, for trustees to be accessible. Their identities and brief information about them should be available to stakeholders, together with advice about

the circumstances in which it might be appropriate to contact them directly.

Charities should consider the degree to which the agendas, minutes and papers of board meetings can be made available to stakeholders where this would not inhibit frankness and clarity. There should be a presumption in favour of openness rather than secrecy.

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