

# Birth of a charity

Governance of organisations seeking registered charitable status



## The Charity Commission

The Charity Commission is the independent regulator of charities in England and Wales. Its aim is to provide the best possible regulation of charities in England and Wales in order to increase charities' effectiveness and public confidence and trust. Most charities must register with the Commission, although some special types of charity do not have to register. There are over 160,000 registered charities in England and Wales. In Scotland the framework is different, and the Commission does not regulate Scottish charities.

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

# Contents

<b>Introduction</b>	<b>2</b>
<b>Research methodology</b>	<b>2</b>
<b>Background and context</b>	<b>3</b>
<b>Analysis and conclusions</b>	<b>5</b>
<b>Survey findings in detail</b>	<b>6</b>
Trustee recruitment	6
Trustees' skills, development and attitude to the role	9
<b>Further resources</b>	<b>14</b>
<b>Appendix: data on respondents' income and funding</b>	<b>16</b>

## Introduction

The Charity Commission maintains the register of charities for England and Wales and is responsible for approving applications for registration. This is a duty we take very seriously. Before allowing entry onto the register, we ensure that applicants have independent trustees in place as well as organisational aims that are charitable and which clearly benefit the public. If these criteria are not met then we conclude that the organisation is not legally a charity and its application is refused.

This research report presents the findings from an online survey of more than 650 organisations that have applied to register as a charity. The survey explored trusteeship and governance issues, including the recruitment, skills and diversity of trustees. Its purpose was to gain a snapshot of the challenges and opportunities facing charity register applicants.

As regulator, we believe it is crucial that charities get off to a good start in life. The registration process is a key opportunity for us to identify any challenges and offer support and advice. In respect of governance, this is vital. Charities that have the building blocks of good governance in place can look forward to a bright future. They are also far less likely to run into problems as they develop and grow.

This research provides a unique insight into the experiences and perceptions of those applying to register as a charity. Whilst the findings reveal some challenges, they also demonstrate many encouraging indications and examples of good practice. This report is interesting and useful reading for anyone who is thinking of volunteering as a trustee or setting up a charity. There are also lessons to be learnt for the wider charity sector, including organisations that have enjoyed charitable status for many years already. The 'further resources' section at the end of the report signposts readers to a wealth of information and advice on governance matters.

## Research methodology

This publication reports on the findings from an online survey of charity register applicants. The survey ran for twelve months from August 2011 until August 2012. Respondents were invited to complete the questionnaire following the completion of their online register application form – participation was optional. 667 completed questionnaires were received during this time. This figure represents approximately 11% of the total number of new applications received.<sup>1</sup>

Over 80% of applicants became registered charities during the survey period. The results presented below therefore represent the views and experiences of applicants to the charity register and not those of registered charities.

It was not assumed that the person filling in the online application form was necessarily a trustee of the organisation. The questionnaire therefore asked about the respondent's knowledge of the organisation's approach to governance issues in fairly general terms. A 'don't know' response option was provided in almost every question.

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<sup>1</sup> 667 completed questionnaires were received during the period 09/08/2011 to 08/08/2012. 6,058 new applications were received during the twelve months ending 31/07/12.

## Background and context

The Charity Commission registers hundreds of charities every month. In the financial year 1 April 2011 to 31 March 2012, 5,601 charities joined the register, although 6,382 charities were removed in the same period. This high turnover is inevitable in a sector that is made up of a wide range of diverse organisations, many of which are small and informal. In spite of this state of flux the total number of registered charities has been fairly stable in recent years and currently stands at about 160,000.

Looking beneath the numbers, it is clear that organisations are at varying stages of development at the point of charity registration. Some groups are likely to be new 'start-ups' for whom registering as a charity is a major step towards gaining credibility and attracting funding. On the other hand, some may have already been up and running for several years already. It is also worth remembering that for some bodies the act of registration can be brought about by changes in legislation or the constitutional form of their organisation. For example, charities that wish to convert from an unincorporated body into a company must register the new legal entity as a brand new charity.

It is worth bearing in mind some of the changes that were happening across the sector during the period when the survey was running. Most notably, a number of formerly exempt charities such as students' unions and the independent colleges of Oxford, Cambridge and Durham Universities were registered. In addition, the programme of work to register Welsh universities was brought to a conclusion. It is possible that some of these organisations were captured in our survey data, although the numbers are probably small: only 4% of respondents declared an annual income above £500,000.

What we can say with confidence is that the majority of survey respondents were affiliated to small organisations. 87% stated that their annual income was £100,000 or below, with the remaining 13% declaring an income above this threshold. This overall distribution of resources is similar to that of the complete charity register, on which only 18% of charities have annual incomes above £100,000. The survey data on sources of income shows that participating organisations tended to rely on donations, grants and fees/subscriptions, rather than service contracts, earned income or investments.<sup>2</sup> This further suggests that many of the survey respondents were involved with grassroots, volunteer-led organisations at an early stage of development.

The focus of this report is trusteeship issues. For more information on trends in charity registration please see our separate publication, the Charity Commission [registration bulletin](#).

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<sup>2</sup> Please see the appendix for the full data tables on income and sources of funding.

## Key findings

- Most applicants to the register that participated in the research were small: over 60% stated an annual income of £25,000 or below and almost 90% said £100,000 or below. Less than 2% declared an income over £1 million.
- The participants' most common source of funding was donations and/or legacies (69%). This was followed by grants from charitable trusts and foundations (35%) and membership fees/subscriptions (26%).
- Around a third of respondents (34%) were seeking to recruit new trustees and just over a quarter (26%) had faced at least some difficulties in recruiting trustees.
- Trustees were most commonly recruited from amongst the organisation's existing staff, volunteers or members (53%). This was followed by recruiting via personal connections (46%) and word of mouth (39%). Only 10% of respondents advertised vacancies on the web and 6% in the press.
- Around a quarter (24%) of respondents claimed that they deliberately recruited trustees from diverse backgrounds such as people from black and minority ethnic groups, disabled people, and young people. A further 35% said they did this to some extent, but not very deliberately or systematically.
- A third of charity register applicants claimed that their organisation did not offer training and support to trustees. By contrast, just under two thirds (63%) did offer this to at least some extent.
- When asked to identify the key areas in which their board would like to increase its level of knowledge and expertise, respondents most commonly cited fundraising (29%). This was followed by charity law/regulation (24%) and strategic planning/business development (10%).
- Respondents were asked, as far as they were aware, what sources of support the trustees had used to help them fulfil their responsibilities. The Charity Commission topped the list with 44% of respondents claiming the trustees had accessed its resources. This was followed by 'another charity working in a similar field' (41%) and 'lawyer/legal expertise' (29%).
- A very small proportion of respondents, 2% of the sample, stated that there were trustees in their organisation who received payment for their role as trustee. However the great majority of respondents (86%) claimed that the trustees did not benefit financially from their role.
- Respondents were asked about their charity's approach to risk management. The most common answer, selected by over two fifths of respondents (43%), was agreement that 'the nature of the organisation's activities involves some risks that can't be avoided and must be managed'. On the other hand, almost one fifth (17%) felt that the trustees should avoid taking risks of any kind and a further 6% said the trustees would not take risks because of concerns about personal liability.
- Survey respondents were asked to select a statement that most accurately summed up the role of the trustees in their organisation. Just over half (51%) felt that the role of their trustees was primarily strategic – to set the vision and strategy but delegate the operational tasks. Around a fifth (22%) felt it was a combination of governance and managerial responsibilities. 22% stated that in addition to their governance responsibilities the trustees ran all or most of their organisation's activities.

## Analysis and conclusions

This survey research provides a fascinating overview of the trusteeship of would-be charities. Whilst these experiences and views do not represent the views of existing charities, a large majority of them are the 'charities of tomorrow'.

There is much to be positive about in these survey findings. Almost three quarters of respondents had not had any difficulties in recruiting trustees. Seven out of ten felt that their organisation had a clear idea of the skills and experience needed on the trustee board. Almost two thirds of respondents reported that they deliberately recruited trustees from diverse backgrounds and minority groups to at least some extent. This suggests that most new charities are aware of their organisational needs in terms of achieving a satisfactory mix of skills and backgrounds at board level.

On the other hand, the research highlights areas of governance in need of improvement and development. For example, trustee recruitment tended to be dependent upon existing volunteers or members, personal connections and word of mouth. To a certain degree this is to be expected. However, such organisations may wish to consider casting the net a little wider in order to find the best candidates and achieve greater diversity on their board.

It is interesting to note that, after the Charity Commission, 'another charity working in a similar field' was the most popular source of support that trustees accessed to help them carry out their duties. They were more likely to approach a peer in the field than a local infrastructure body or national umbrella body, both of which exist to support frontline voluntary sector groups. This collaborative approach is to be applauded, although it is surprising that voluntary sector support bodies are not the first port of call. The Commission would urge organisations and individuals that are considering forming as a charity to contact not only other charities doing the same work, but also local support agencies and umbrella bodies. Their advice and overview of the sector can prove invaluable.

The survey respondents' perception of their trustees' attitudes to risk management are also revealing. Whilst a majority agreed that risks were a fact of charity life and had to be managed, almost a quarter either felt that risk-taking should be avoided because it is 'irresponsible' or said that the trustees will not take risks because of concerns about personal liability. This risk-averse mentality could be holding back such organisations from exploiting new opportunities. It is important to assess risk and endeavour to manage it rather than simply avoid it at any cost. Even more concerning is the response given by 13% of respondents that their organisation 'did not face any risks and so the issue is not relevant.' In reality, there are very few activities that charities carry out that are completely risk-free.

Perhaps surprisingly for small organisations, over half of respondents summed up the role of their trustees as primarily strategic in nature, with operational tasks delegated to staff or volunteers. On the other hand, over a fifth felt that the trustees were running all or most of the organisation's activities, with 'no job being too large or small'. In very small charities, particularly those in the early stages of development, it is common for trustees to play a hands-on role. Over time, however, such organisations may wish to establish a clearer separation between board members and operational staff. This will help avoid conflicts of interest and allow trustees to provide impartial, independent oversight.

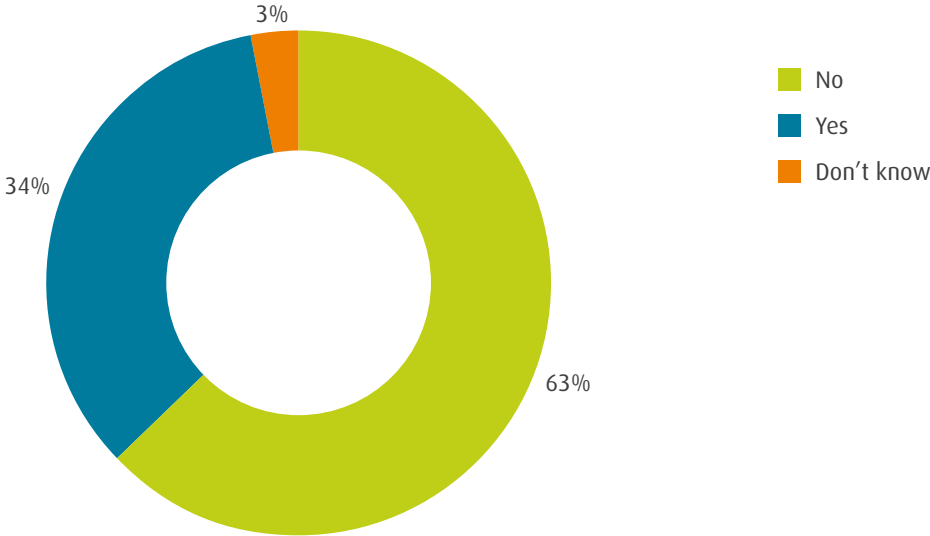
Finally, it is worth highlighting the dedication and hard work that charity trustees bring to the role. Their energy and dynamism has a hugely positive impact in so many ways. Furthermore, it instils vital public trust and confidence in charities of all sizes.

# Survey findings in detail

## Trustee recruitment

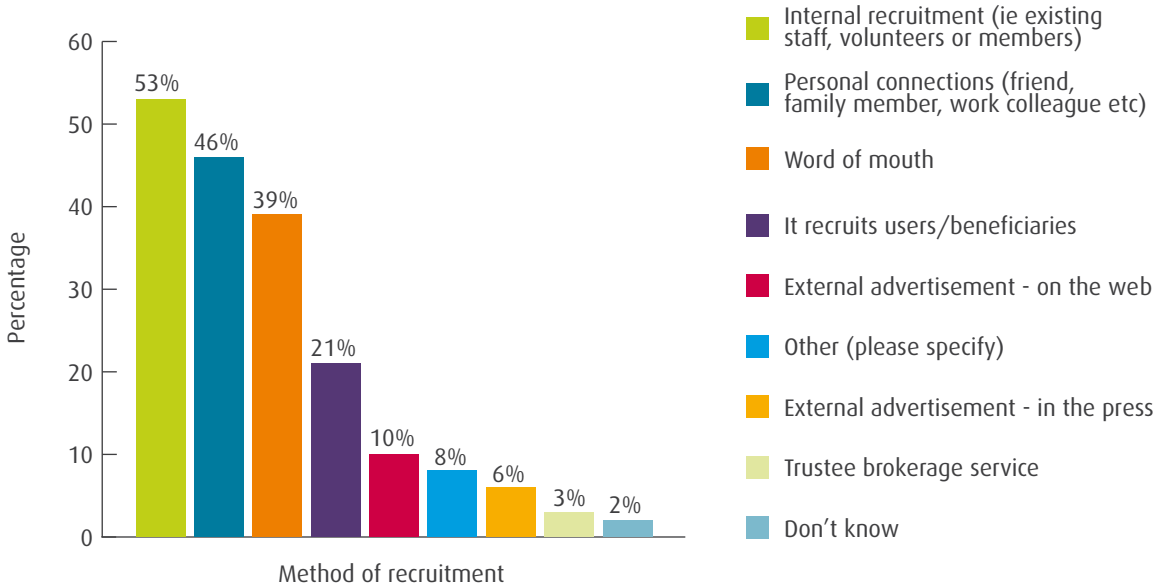
There were several questions in the online survey on trustee recruitment. These related to current vacancies, methods and challenges of recruitment and achieving diversity on the trustee board.

**Chart 1: is your organisation currently looking to recruit a new trustee or trustees?**



There was clear demand for trustees amongst a sizeable proportion of register applicants. Around a third (34%) said they were looking to recruit, whilst just under two thirds (63%) were not.

**Chart 2: methods of trustee recruitment**



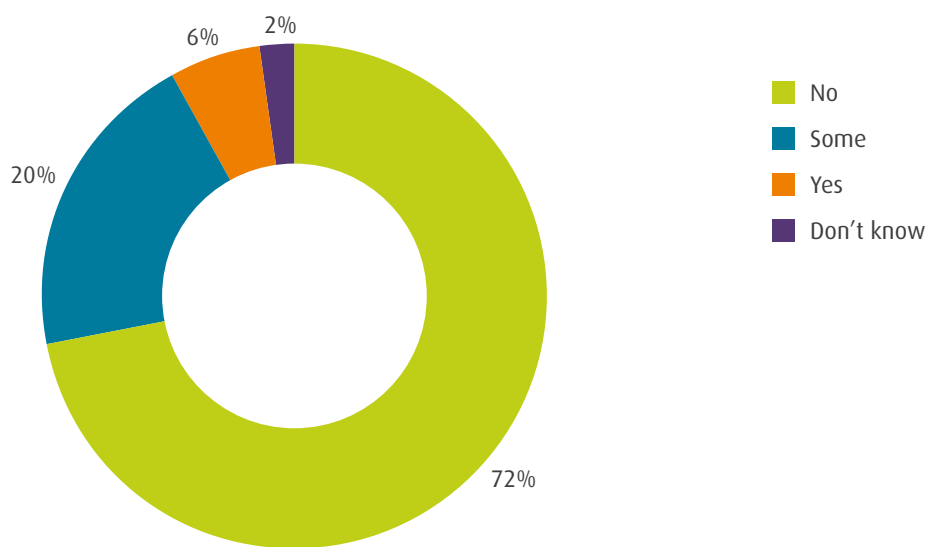
NB: respondents selected all response options that applied so percentages add up to more than 100.



Chart two demonstrates that the survey respondents were most likely to select candidates from the organisation's existing staff, volunteers or members – over half of participants (53%) used this method. This was followed by recruitment via personal connections such as friends, family members, and colleagues (46%) and 'word of mouth' appointments (39%). Few respondents said that their organisation advertised trustee vacancies externally, either in the press or online (6% and 10% respectively).

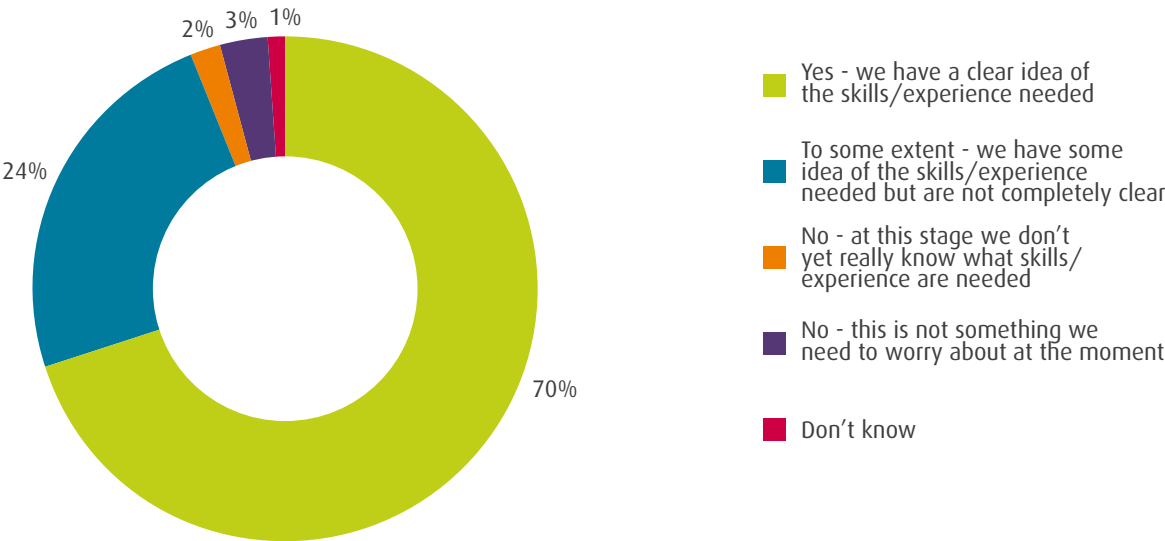
Within the 8% that selected 'other' there were a range of responses. Many of these referred to the recruitment of existing members so could be broadly categorised as internal recruitment. Several respondents also mentioned their professional networks and partners in the sector as a source of new trustees.

**Chart 3: has your organisation experienced any difficulties in recruiting trustees?**



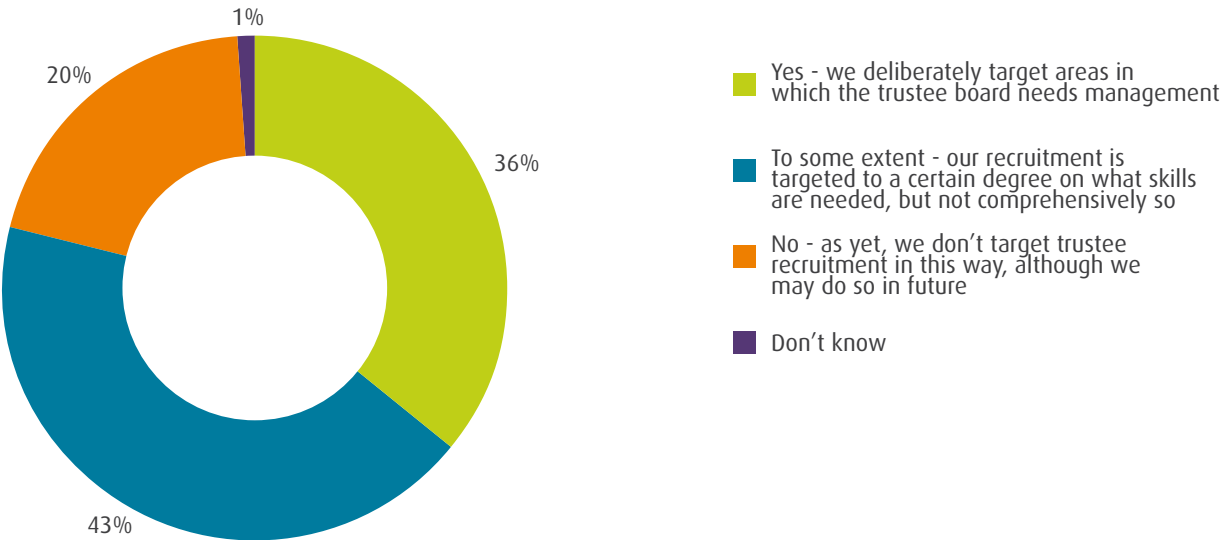
Almost three quarters of survey respondents (72%) said they had not yet experienced any difficulties in recruiting trustees. 20% said they had faced some difficulties and only 6% gave an outright 'yes'.

**Chart 4: in terms of trustee recruitment, has your organisation considered the range of skills/ experience that are needed on the trustee board?**



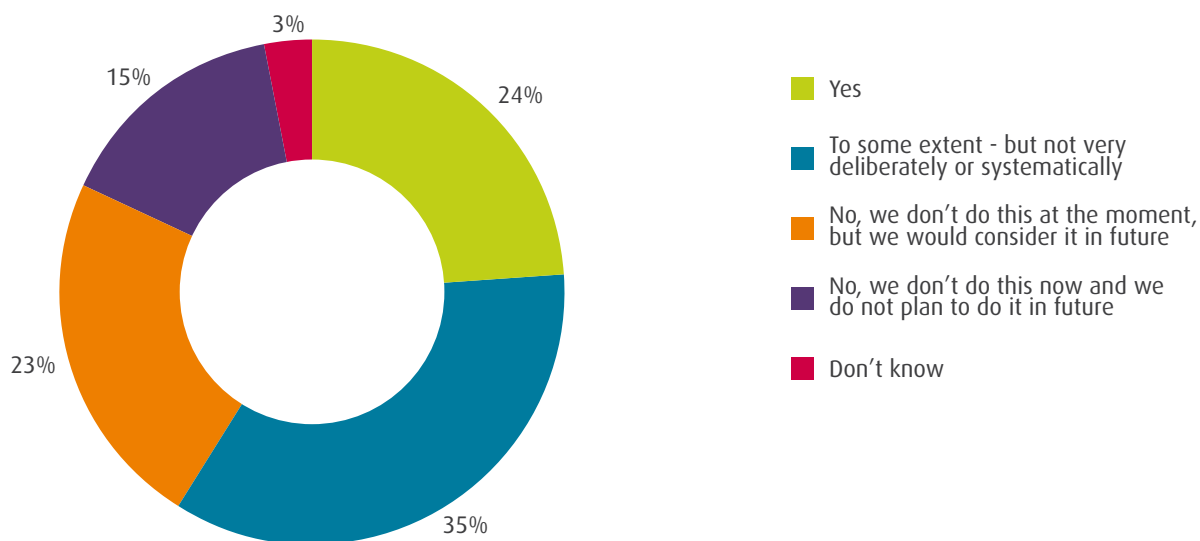
Seven out of ten respondents felt that their organisation had a clear idea of the skills and experience needed on the trustee board. Just under a quarter (24%) felt they had 'some idea' of the skills needed. Only 2% of respondents admitted that they did not yet know what skills would be needed on the board. A similarly small number (3%) felt this was not something they needed to consider at this stage.

**Chart 5: does your organisation deliberately recruit trustees with certain, specific types of knowledge and skills?**



Almost four fifths of respondents (79%) stated that their organisation recruited trustees in a targeted way (although over half of these said this was done only 'to some extent'). The remaining respondents (20%) stated that the organisation did not yet deliberately seek candidates with specific types of knowledge and skills.

**Chart 6: does your organisation deliberately recruit trustees from diverse backgrounds?**



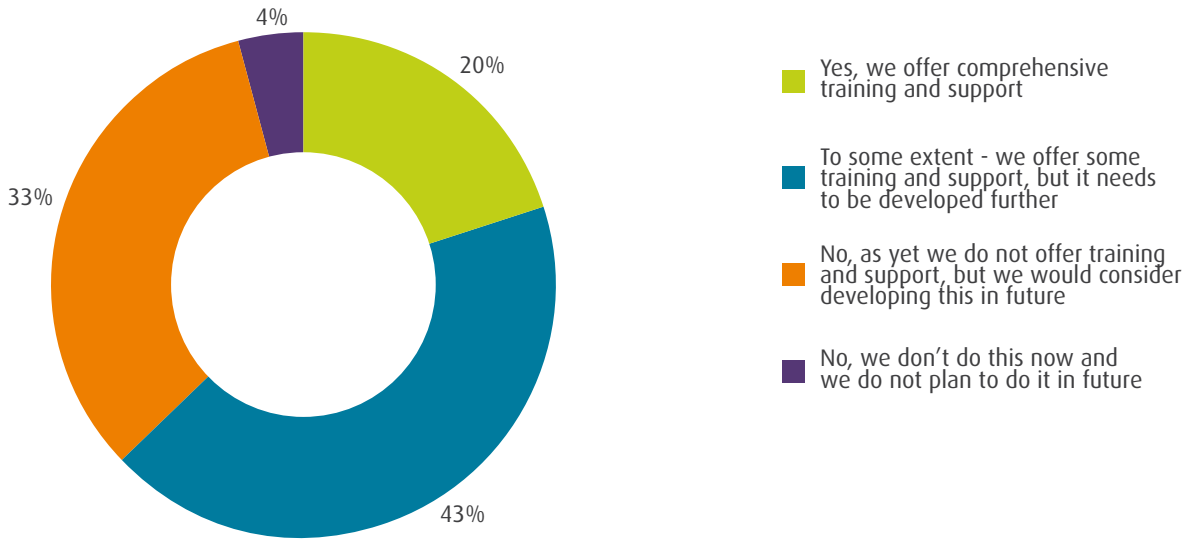
Respondents were asked whether their organisation deliberately recruited trustees from diverse backgrounds, for example people from black and minority ethnic groups, disabled people, and young people. The majority of register applicants (59%) said that their organisation did this. Almost a quarter (24%) simply responded 'yes' whilst 35% said they recruited trustees from diverse backgrounds 'to some extent'.

However, a sizeable minority (38%) did not recruit in this manner. Just under a quarter of respondents (23%) said that although they weren't deliberately targeting minority groups at the moment, they would consider it in future. Interestingly, 15% of respondents said they had no intention of doing this in future.

### Trustees' skills, development and attitude to the role

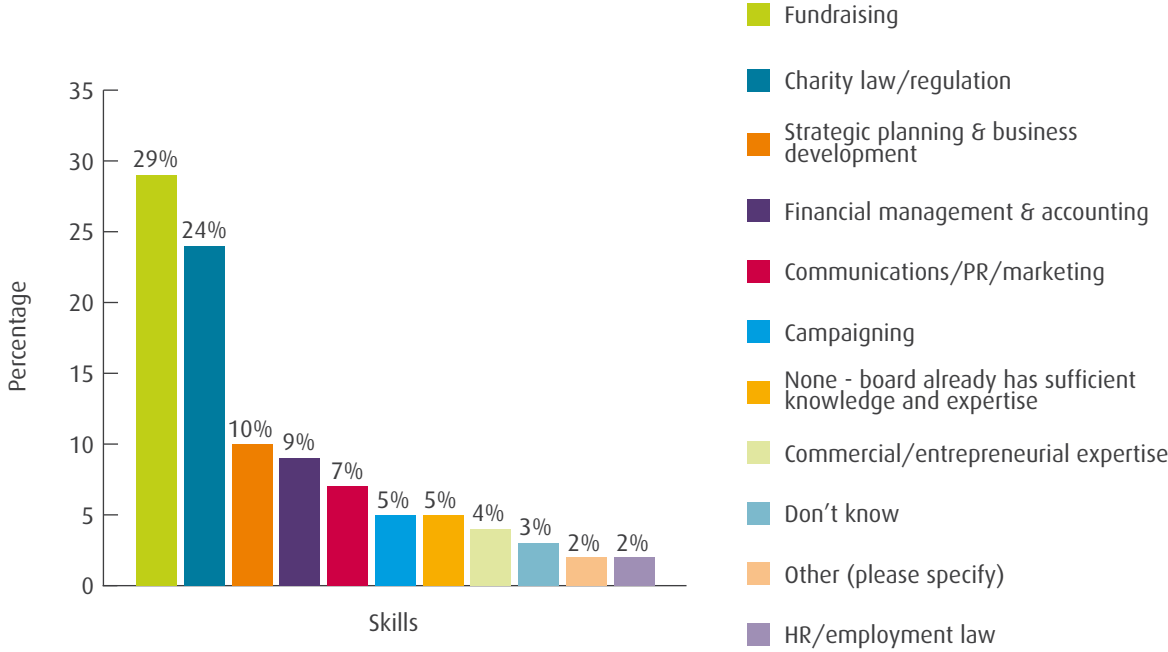
This section of the questionnaire asked respondents whether training and support was offered to their trustees. It also explored participants' views on areas of skills and knowledge in which the trustee board needed improvement and development, and the sources of support that trustees used to help them carry out their duties. There were further questions related to trustee remuneration and attitudes towards risk management. Finally, we asked respondents about the extent to which trustees in their organisation had a strategic oversight as opposed to everyday, operational responsibilities.

**Chart 7: does your organisation offer training and support to trustees, especially those that are new to the role?**



A third of respondents stated that their organisation offered no training and support to trustees at the time the survey was completed. On the other hand, almost two thirds (63%) did offer this to at least some extent.

**Chart 8: skills gaps on trustee boards**

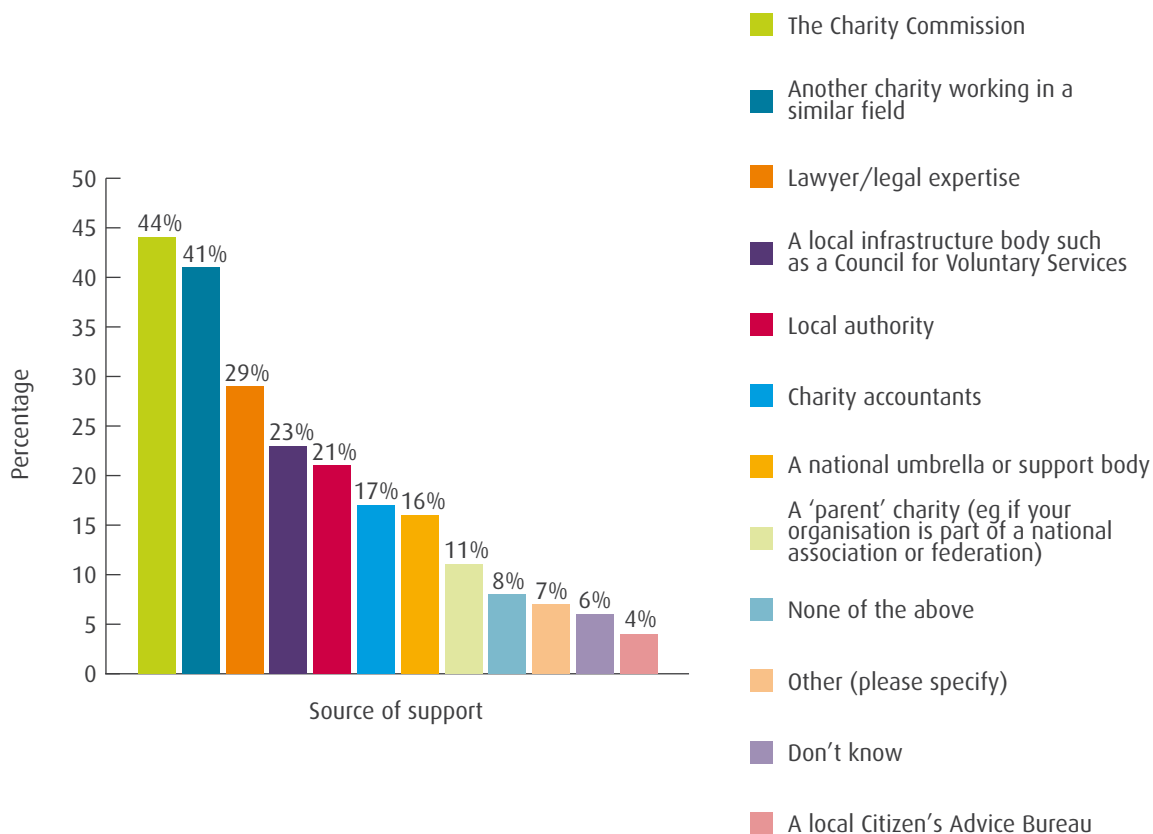


Respondents were asked to indicate the top three priority areas in which the board would like to increase its level of knowledge or expertise. Chart 8 shows which areas respondents selected as their number one priority (so the percentages add up to 100).

The priority area in which respondents felt their board needed to increase its knowledge and expertise was fundraising (29%) followed by charity law/regulation (24%) and strategic planning and business development (10%). Respondents were least likely to cite HR/employment law as a key area in need of development (2%).

Only 2% of respondents selected 'other'. Of those responses that were not already covered by the options provided, several related to specific knowledge of certain sectors.

**Chart 9: sources of support accessed by trustees**

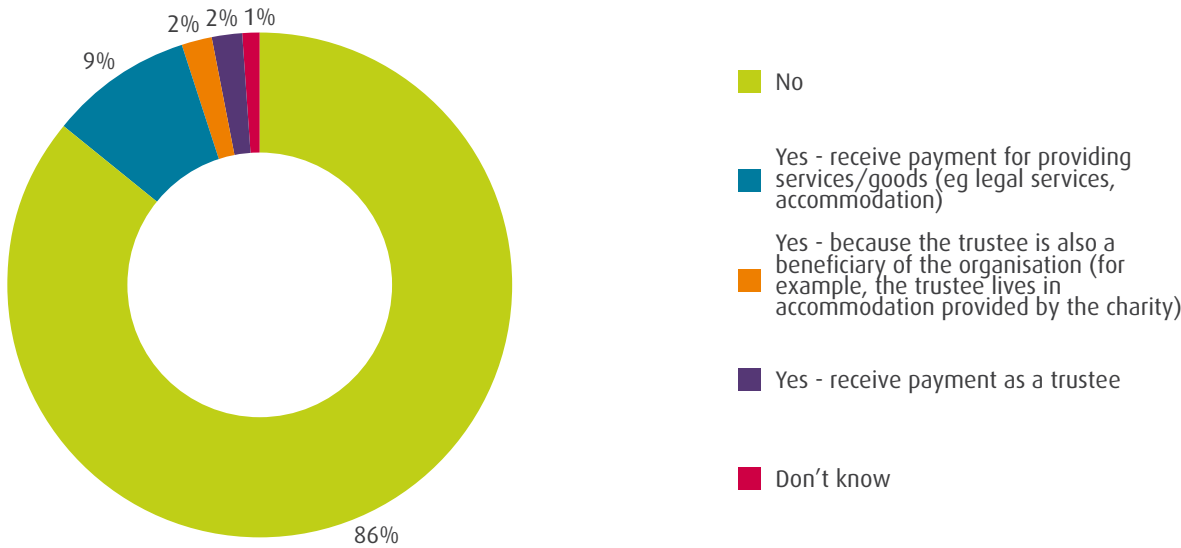


**NB:** respondents selected all response options that applied so percentages add up to more than 100.

Respondents were asked, as far as they were aware, which sources of support the trustees had used to help them fulfil their responsibilities. The highest proportion, 44%, selected the Charity Commission. This was closely followed by 'another charity working in a similar field' (41%). Over a quarter of respondents (29%) said that the trustees had accessed legal expertise.

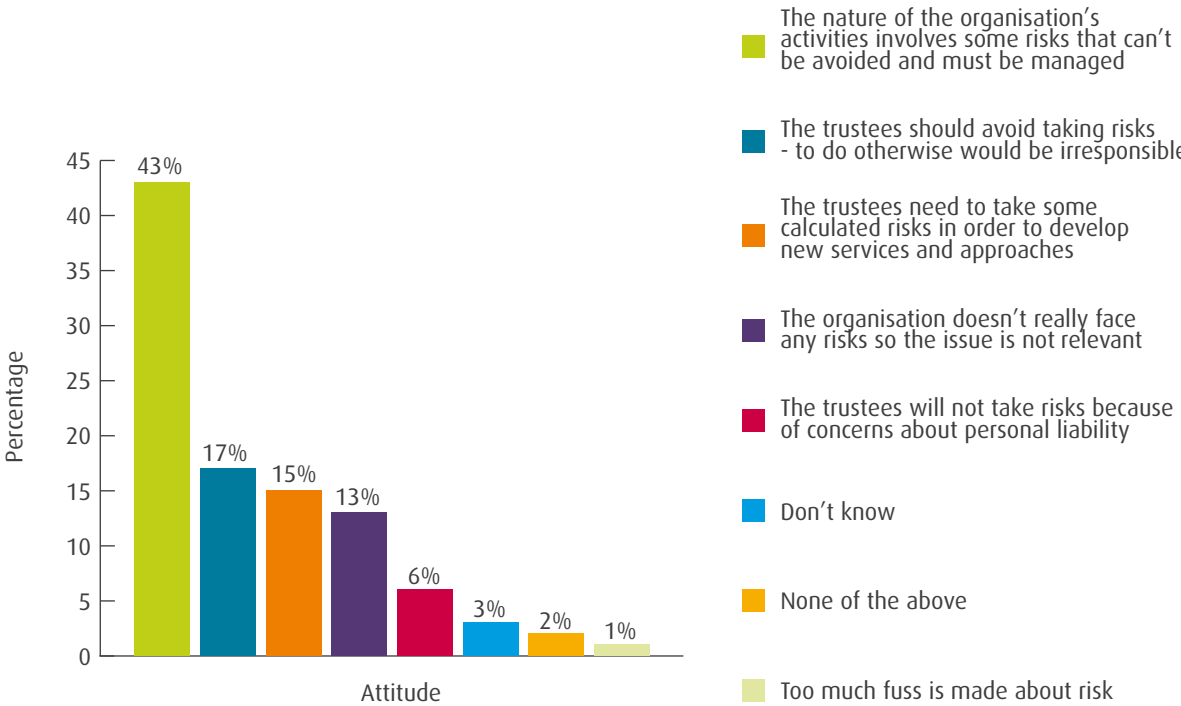
7% of respondents selected 'other'. Of these, a large number of responses related to calling upon the expertise and experience of key individuals such as existing trustees, as well as external professional advisers, consultants, colleagues and even friends. A small number of participants made reference to online resources.

**Chart 10: are any of the trustees receiving payment or benefiting financially from the organisation, or are they likely to do so in future?**



Respondents were asked whether any of the trustees in their organisation were benefiting financially from the organisation (excluding expenses and reimbursements). The majority of respondents, 86%, said that the trustees did not gain financially from their position as a trustee. However, almost one in ten (9%) said that there were trustees receiving payment for providing services or goods to the charity. Only 2% (14 respondents) claimed that there were trustees on the board who were paid for their governance duties.

**Chart 11: attitudes to risks**

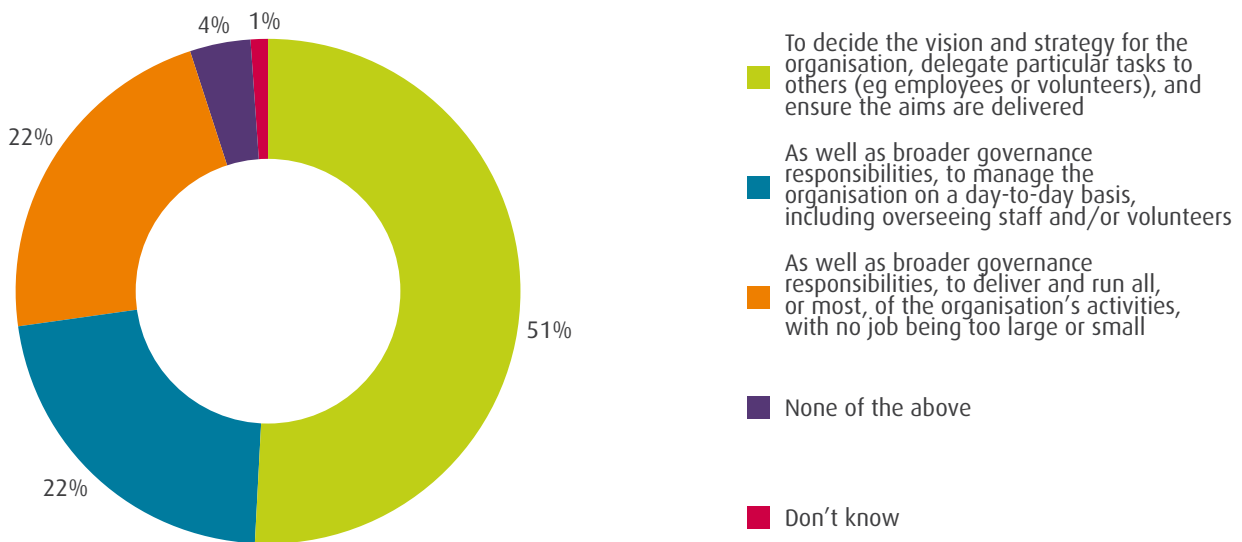


Survey participants were provided with a range of statements and asked to select one that, broadly speaking, most accurately reflected the trustees' view of risk in terms of the management and governance of their organisation. Examples given were financial risks, risks to reputation and risks to vulnerable beneficiaries. Participants could select only one statement so percentages add up to 100.

Over two fifths (43%) agreed that a certain level of risk was unavoidable and must be managed. In a similar vein, 15% took the view that calculated risks were necessary in the name of innovation.

On the other hand, a minority of respondents were much more risk averse. 17% felt that risks should be avoided because to do otherwise would be irresponsible. 6% agreed that the trustees would not take any risks because of concerns over personal liability. 13% of respondents felt that their organisation did not actually face any risks and so the issue of risk management was not relevant to them.

**Chart 12: in practice, how would you sum up the role of the trustees in your organisation?**



Finally, survey respondents were asked to select a statement that most accurately summed up the role of the trustees in their organisation. 51% felt that the role of their trustees was primarily strategic – to set the vision and strategy but delegate the operational tasks. 22% felt it was a combination of governance and managerial responsibilities. The same proportion stated that in addition to their governance responsibilities the trustees ran all or most of the organisation's activities.

## Further resources

### Charity Commission resources

Our guidance on [charity essentials](#) introduces new trustees to the fundamentals of governing a charity. They will find the following publications particularly useful:

- *The essential trustee: what you need to know (CC3)*
- *The hallmarks of an effective charity (CC10)*

The Commission's guidance on [charity governance](#) offers a wealth of resources and advice on effective trusteeship, especially the following:

- [Good governance](#) sets out the basic principles of good governance and signposts to other useful resources.
- [Managing charity resources](#) provides guidance on managing charity resources, including finances, land and property, pensions and investments.
- [Managing risk](#) provides guidance on managing risk to a charity's beneficiaries, resources or reputation.
- *Finding new trustees - what charities need to know (CC30)* is our guidance on recruiting, selecting and inducting new trustees.

Our research into trusteeship also provides useful information on experiences and challenges across the charity sector:

- *Start as you mean to go on: Trustee Recruitment and Induction (RS10)*, published in 2005, reported on the findings from a survey of charity trustees. It compared the findings with those from an [earlier survey](#) conducted in 2002.
- *A Breath of Fresh Air: young people as charity trustees (RS23)* was published in 2010. It explored ways that charities can engage young people and make best use of the fresh perspectives they offer.

### Other resources

[Trustees' Week](#) runs every year. It promotes and celebrates charity trusteeship. The Charity Commission is a supporting partner.

The [National Council for Voluntary Organisations](#) provides resources specifically on [governance and leadership](#). Their website contains a trustee recruitment portal called the '[Trustee Bank](#)' and provides information on training opportunities and events.

The [Small Charities Coalition](#) is a national support and networking organisation that helps small charities and their trustees access skills, knowledge and resources. Their website provides help with [trustee recruitment](#) as well as a [matching service](#).

[Charity Finance Group](#) aims to ensure best practice in charity finance. Its website offers an array of [briefings and publications](#), primarily on financial management, that trustees may find useful.



[Do-it](#) is a website that advertises volunteering opportunities across the country, including those on charity boards.

The [Association of Chief Executives of Voluntary Organisations](#) is a membership organisation that aims to represent chief executives in the third sector. There is a section on the website dedicated to [governance issues](#).

[Reach](#) is an organisation that specialises in supporting charities to find skilled volunteers. The [TrusteeWorks](#) section of their website helps skilled volunteers find trustee roles.

## Appendix: data on respondents' income and funding

**Table 1: annual income**

Respondents were asked to provide the annual income of their organisation. If they were setting up a brand new organisation, and did not yet know the income, they were asked to give an estimate.

Response option	No. of respondents	Percentage of respondents
Zero	1	0
£1 - £10,000	232	34
£10,001 - £25,000	181	27
£25,001 - £100,000	172	26
£100,001 - £500,000	60	9
£500,001 - £1 million	11	2
More than £1 million	10	2

**Table 2: sources of funding**

Respondents were asked to select all of the ways in which their organisation accessed funding.

Response option	No. of respondents	Percentage of respondents
Donations and/or legacies	462	69
Grants from charitable trust or foundation	233	35
Membership fees/subscriptions	172	26
Public sector grants	143	21
Other	109	16
Earned income through rent of buildings, land, equipment etc	71	11
Investments and/or trading	53	8
Public sector contracts	42	6
Don't know	9	1

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Typetalk: **0845 300 0219**

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