

As part of that process, trustees should:

- ensure that they fully understand their governing document, refer to it on a regular basis and act within its terms;
- ensure that the governing document they adopt is appropriate, comprehensive and contains provision for amendment to meet the evolving needs of their charity;
- be proactive in sharing experience, use all available sources of information and network with other charities to develop realistic projections of income, expenditure and time commitment;
- weigh up both the potential benefits and costs of incorporation when considering whether to register as a charitable company;
- maintain a realistic understanding of the extent of their liability for any losses incurred by their charity;
- scrutinise the conditions attached to grant funding and contracts to ensure that the independence of their charity is not compromised;
- ensure that the terms of any contract they enter into safeguard the interests of their charity and its users;
- ensure that fundraising is actively managed, even when it is contracted out, and that it complies with all relevant legal requirements;
- ensure that their own roles and those of the charity's managers and employees are clearly defined so that all parties understand the scope of their responsibilities;

- seek the appropriate level of legal advice before entering into a property transaction;
- give regular consideration to whether or not their charity has a viable future and a good reason to continue.

- Grant makers should seek to ensure that any administrative and monitoring requirements accompanying funding are proportionate to the size of the grant.

- Umbrella and professional bodies should:
 - encourage charities to use model and standard governing documents which contain the provisions that they are likely to need;
 - provide guidance on trustees' personal liability and on the extent to which incorporation can provide some protection against this liability.

- The Active Community Directorate, as part of its strategy for encouraging capacity building, should promote business planning and predictive skills by charities.

The Charity Commission produces an extensive range of guidance that set out our position and the main points of consideration for charities in relation to each issue. Where such guidance is available, it is sign-posted in the report. The Charity Commission will incorporate the experience gained from this research into its wider range of publications.

RS6a - Milestones

Summary

Introduction

There are over 180,000 registered charities in England and Wales. Each charity is different and their diversity is one of the defining characteristics of a vibrant civil society. Charities share many common events or milestones as they develop, grow and change. The lessons learnt by one charity can be of benefit to other charities by helping them to avoid common pitfalls and take advantage of best practice experience.

Society is increasingly turning to charities to provide and deliver key services and amenities, with an expectation that these services will be delivered in a well organised, effective and accountable way. The report aims to play a part in supporting new and developing charities by exploring, from the charity regulator's perspective, some of the issues charities can expect to encounter. It aims to disseminate the information gained from charities' experience of milestone events and illustrate some best practice ways of preparing for and dealing with them. To complement our casework experience, the report also presents findings from a survey which gathers, for the first time, the feedback of recently registered charities.¹

Summary

A 'milestone' is defined as a significant change that has repercussions for many aspects of a charity's role and activities. It may have implications for the charity's governance arrangements, the roles individuals play, potential liabilities and so on. The characteristic of a milestone is that

many changes have to be considered at the same time and the demands on trustees and staff increase significantly.

The main report is structured around issues and phases of development rather than strictly by milestone because many of the issues covered by the report are relevant to more than one milestone. Typical milestones in the life of a charity are illustrated below, with the section of the report that deals with the related key issues shown in brackets.

The milestones that charities commonly encounter as they develop are:

- establishing themselves as a formal legal entity (*Starting up*);
- employing staff for the first time (*Managing change*);
- planning future activities (*Planning ahead*);
- encountering changes in their funding arrangements such as getting a grant, entering into a contract to deliver services or setting up a trading subsidiary (*Funding*);
- making changes in their governance or organisational structure (*Managing change*);
- acquiring, repairing or selling property (*Managing change*); and
- winding up or changing direction (*Managing change*).

Annex A of the main report provides a list of questions that trustees may find useful to ask themselves at various stages of their charity's development.

About the report

The report on Milestones has been compiled using evidence from the Charity Commission records and an examination of our case files. We have also spoken to numerous charities, advisory and umbrella bodies and carried out a formal survey.

To obtain a full copy of the report **Milestones: Managing key events in the life of a charity (RS6)** you can either:

- View and print from the publications section of our website at www.charitycommission.gov.uk; or
- Call our Contact Centre staff on 0870 333 0123 between 8.30 am and 6.00 pm on weekdays or, at other times, our answer phone order line on 01823 345 427 for a printed copy.

¹ The surveyed charities were all registered in 1995, either for the first time or subsequently as a charitable company.

There are many milestones in the life of any one charity. The report concentrates on those for which the Charity Commission's regulatory experience adds a particular perspective and value. It is not a manual; it does not give detailed instructions on what to do when each milestone is met. Instead it draws attention to the main issues that the Charity Commission sees and of which charity trustees need to be aware.

Each milestone can be a springboard if well managed but cause problems otherwise. In some cases the Charity Commission will become involved because our authority or advice is needed or because the charity becomes a cause for concern which may lead to an investigation. More generally, the Commission has a statutory duty of "promoting the effective use of charitable resources".² In our experience, resources are used most effectively in a charity that manages its transitional stages well. This is more likely to happen in a charity which takes a long-term, informed perspective.

Our casework shows that charities often experience milestones or transitional events as crisis points rather than as anticipated stages in a process. The milestones listed above are identifiable because new and developing charities regularly meet the same events as those before them without the benefit of learning from others' experience. Experience is passed on through umbrella and advisory bodies but they report that charities often do too little, too late. All too often, charities seek support and advice when they hit a transitional period rather than in preparation for it. The evidence also suggests that charities' response is often to implement a short-term solution rather than to adapt their organisational structure to ensure that the charity has the capacity to continue to function efficiently and effectively in its new situation.

This can be explained, in part, by a lack of adequate planning. Only 49% of the charities surveyed produce a yearly or longer term plan. Charities can only deal with milestone events successfully in the context of a proper risk management strategy. A long-term perspective and awareness of the context within which the charity is operating are essential to a proper assessment of risk. If trustees are to manage charities effectively, they need a working plan, appropriate to their size and needs, based on an awareness of the probable direction of their charity's development, an understanding of the social and economic factors that are likely to impact upon them and an awareness of the evolving needs of their beneficiaries.

Charity Commission casework experience indicates that trustees are not always accurate in their expectations for their charity. This is confirmed by our survey: 21% of charities had underestimated expenditure or overestimated income in their early years; 39% had underestimated the time required to run the charity; and 18% had underestimated the complexity of accounting involved.

A large number (59%) of charities with staff and/or volunteers do not have a long-term or yearly plan that ensures they are able to meet their commitments as employers. Only 58% are confident that they are up to date in their understanding of employment legislation.

The conditions in which a charity operates can have an effect on their ability to plan ahead. Short-term and restricted funding have the most significant impact in this respect. 69% of grant funded charities surveyed reported that relying on short-term grant funding had compromised their ability to plan their development.

There is scope for trustees to be more proactive in ensuring that the organisational capacity of their charity keeps pace with its growth. 69% of surveyed charities stated that they had never made changes to their management or governance structure.

The Charity Commission's evidence shows that, perhaps understandably, charity trustees and employees tend to focus their attention and resources more heavily on their beneficiaries than on their organisational structure. 22% of surveyed charities reported that the daily running of the charity took up most of their available resources, which does not leave much scope for the development of internal systems and structures. As identified by the Active Community Directorate, the long-term interests of beneficiaries are better served by robust organisations with the capacity to use funds efficiently.

On the whole, charities do not currently communicate or co-operate with each other to a very high degree.³ However, the evidence suggests that smaller charities are more likely to look up from their daily work and take a more strategic perspective when they have secure funding in place. Evidence supports the findings of the Government's recent Cross Cutting Review, *The Role of the Voluntary Sector in Public Service Delivery*.

The main message of the report is that planning should be central to a charity's governance and, to inform the planning process, trustees should make use of the experience and lessons learned by other charities. Sound planning and a proper assessment of risks by charities, of their governance, finance and activities, will promote efficiency, sustainability and growth in the sector.

Charity Commission casework experience and consultation within the sector show that successful charities:

- have a governing document which matches the reality of what they want to do;
- have governance arrangements which keep pace with change;
- take stock to ensure that they have the skills and experience/knowledge for the nature of their activities, especially when getting into complex situations such as contract negotiations or setting up a trading subsidiary;
- confront difficult or emotionally charged issues such as whether to wind up their charity or transfer activities;
- are financially stable and have:
 - secured sufficient, or sufficiently diverse, income,
 - properly costed their activities and contained their expenditure, and
 - paid sufficient attention to financial planning and risk management.

Research for the report involved detailed analysis of our bank of casework and other data held within the Charity Commission, a survey of all charities registered in 1995 (either for the first time or subsequently as a charitable company) and consultation with charities, umbrella and advisory bodies.

Recommendations

Below are some recommendations which we believe will help charities anticipate and successfully deal with the milestones in their development.

- As good practice, trustees should:
 - develop a business plan and risk management strategy, however simple, to establish the projected future activities and financial and organisational situation of the charity and determine how these will be managed.

² Section 1(3) Charities Act 1993.

³ See Charity Commission publication *Collaborative Working and Mergers (RS4)*.