CFG INSPIRING FINANCIAL LEADERSHIP

MHA MacIntyre Hudson
Chartered Accountants, Tax and Business Advisers

Trustee finance skills, competencies and training

2017 Survey Results

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Introduction

Strong governance and bold leadership are major contributors to successful and effective charities. This imperative is well established, not just in the Not for Profit sector. Considerable guidance is readily available, for example the third edition of the Charity Governance Code which was published in July 2017.

But there is plenty of evidence (anecdotal and otherwise) that concerns exist, particularly over financial governance. The Charity Commission has been relentless in encouraging improvements to be made, particularly in financial governance, through initiatives such as 'The Big Board Talk' and '15 Questions trustees should ask' (12 of which concern finance).

MHA MacIntyre Hudson and **Charity Finance Group** therefore collaborated earlier in 2017 to undertake a joint survey of charities considering trustee competence in finance. Over 120 responses were received from a variety of charities with incomes in the range of less than £1m to over £100m.

Respondents considered 12 questions and also provided further useful comments. The key findings are set out below.

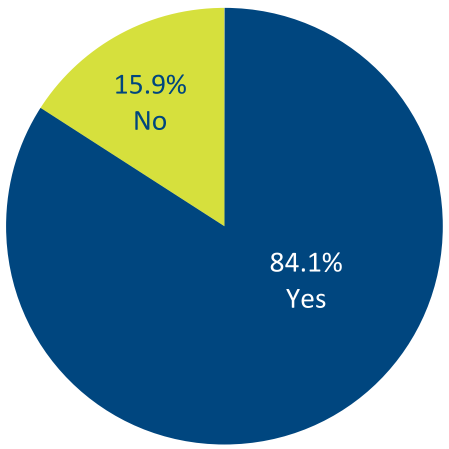
Informed confidence or uninformed complacency?

One of the most striking results from the survey was the relatively high level of confidence that respondents reported about financial governance but the low level of appraisal of trustee boards. Charity respondents appear confident that they know their stuff, but do they really know or is ignorance bliss?

57% of respondents said that they understood strategic financial governance matters well or very well, with only 12% saying that they had a poor or inadequate understanding. This is very positive and indicates that boards are taking financial matters seriously.

Yet 84% of respondents said that it would be beneficial for their charity to have a better understanding of strategic financial governance matters.

Do you think it would be beneficial to your charity's governance for your trustees to have a better understanding of strategic financial governance matters?



Only 16% always assessed board competency for charity finance skills, with 29% assessing skills sometimes and 30% occasionally. This was compounded by the fact that 46% of respondents never or only occasionally formally assessed the effectiveness of their financial governance.

It is critical that charities base their governance on a realistic assessment of their own skills and effectiveness. In complex issues, such as finance, it is not enough to trust that things are in hand. MHA and CFG's new **Charity Finance Essentials Guide** has a skills matrix to help boards assess the level of charity finance skill in their organisation. Some trustees may have informal or practical experience which can be useful, but codifying and understanding where trustee skills sit is very important.

Charities should be encouraged to assess trustees' skills and identify gaps of knowledge or competence so that they can either bring in new trustees with the required skills or get training for existing trustees.

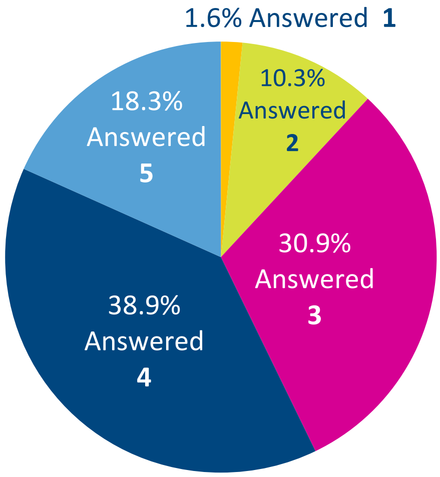
Boards generally feel confident about their strategic knowledge

As referenced above, the survey firstly considered the board's overall strategic understanding of their charity's financial affairs, and the level of skills that exist to oversee these effectively.

On the question of trustee understanding of strategic financial governance matters, 57% said their board members performed at least 'well'. This is positive, but the 43% that either had an inadequate or middling sense of confidence is worrying. Financial governance is a core responsibility for trustee boards.

Only 18% said that they understood financial governance 'very well'

On a scale of 1 to 5, where 1 is inadequately and 5 is very well, how well does your trustee board understand strategic financial governance matters?



Which may indicate across trustee boards a niggling sense of doubt that they are on top of all the issues that they should be.

Boards should make sure that they put the time in to get a complete and confident grasp of financial issues facing their charity. A lack of understanding leads to less effective trustee meetings where challenge and scrutiny is hard to maintain due to a lack of knowledge about the subject matter at hand.

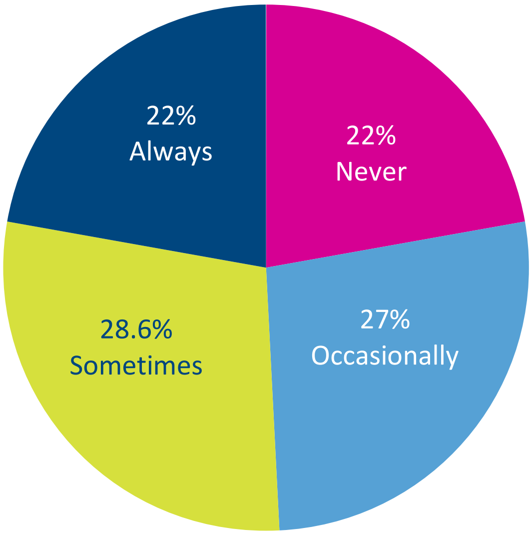
Considering the board's financial skills, only 24% were considered to have the complete skills and knowledge required to fulfil their responsibilities. Virtually all charities considered it was important that there was more than just one trustee that is engaged on financial matters. This is important because often finance matters are left with a sub-set of the board, typically the Treasurer or Chair of the charity. Trustees must remember that financial governance is a collective responsibility, and those trustees which are weak should be given the resources and training that they need to strengthen their understanding.

These questions deliberately focussed on the strategic aspect of charity finance, rather than day to day operations, as that is clearly an essential trustee responsibility. These results indicate a significant skills gap, and it is quite shocking that 6 out of 7 charities' governance could be improved by better trustee understanding.

Despite confidence and skills gaps, training is not regularly offered

Given the results above, we would expect there to be a strong commitment to trustee training. Unfortunately, this wasn't borne out by the survey results.

Do you make available charity finance training for trustees that need it?



Only 22% of charities indicated they always made available charity finance training for trustees that needed it.

Could this be because there were financial barriers to the provision of training? The results suggest this may be an issue as 59% of charities do not budget for trustee training. But interestingly more charities budget for training than offer finance training. This is possibly reasonable as clearly training needs to address other non-financial aspects of a trustee's role.

As referenced above, could a barrier to training be misplaced confidence? It is hard to know what training you need if you don't know what skills or competence you have in your charity. A lack of board and personal performance assessment could be feeding into the belief that training is not required.

It is also a common feature that trustees are reluctant to do training because they have limited time to give, and charities do not push for training because they are conscious of the volunteer nature of the trustee role. Charities need to be honest with their trustees and make sure that they are encouraging them to improve their skills and understanding where that is required for the best interests of the charity.

Where charities do budget for training, it appears there is a very wide variation in the amounts allocated which ranged from £250 to £5,000 per annum. It was interesting that the highest budget was not in one of the largest charities in the survey. This seems to indicate that cost is not primarily an issue for charities when deciding on training.

Barriers to skills development

A lack of budget is certainly not a barrier to beneficial trustee training being delivered to charities. Respondents cited a variety of free or low cost alternatives; for example, in-house training, sessions provided by professional advisers such as auditors and lawyers, self-study, use of Charity Commission guidance, and personal funding by trustees themselves. Clearly all these options can be both beneficial and cost-effective.

Interestingly, however, only 49% of charity respondents said that they used the Charity Commission's new guidance on charity finance: trustee essentials. This indicates the need for charities to use the resources that the Charity Commission has developed better.

The cost of charity governance is often the subject of great debate in the sector, with some holding the opinion that excessive governance costs is a demonstration of 'bad' administration.

Since any trustee training would be disclosed as governance costs in the charity's statutory financial statements it is possible that the impression given by financial reporting could dampen any desire to encourage such training. However only 19% of charities had concerns about such disclosures. This is a good and refreshing response. Nevertheless, when asked if charities would consider it to be positive to disclose expenditure on trustee training in their statutory financial statements, there was a significant variety of responses, both positive and negative, with the majority being neutral in their views.

We consider this to be a missed opportunity to make a positive statement of good intent. Trustees' reports could make a virtue of 'good' expenditure and 'positive' investment into effective charity governance.

Trustee appraisal

Given the little formal finance training being provided to trustees, is this a result of there being no perceived need following formal assessment of trustee skills? Since only 16% of charities always formally assess board competency in charity finance, this would not appear to be the case, albeit it is possible that there is some form of informal assessment.

Could it be that charities consider they already have effective financial governance, and hence trustee skills must be adequate? This, however, seems unlikely as over three-quarters of charities do not formally assess this aspect.

The results therefore suggest some possible reluctance or complacency about trustee appraisal as there is copious guidance available for charities.

Emerging themes

The messages that can be taken from the survey are quite clear, and are consistent with our knowledge of the sector.

1. **Trustees are not effectively assessing their understanding and skills**
2. **Trustees could be contributing more to strategic financial governance**
3. **Trustees finance skills and knowledge needs to be strengthened**
4. **More focus is needed on trustee training**

The concerns that led to us undertaking this survey therefore appear to be well-founded. There are clear concerns about the financial governance in charities and the apparent deficit in skills and knowledge of individual trustees. Misplaced confidence could also be encouraging charities to not identify the gaps in their skills and not understand the skill sets they do have, which could store up problems for the future.

These findings are consistent with the tone of recent Charity Commission guidance including their publication, Charity Finances: trustee essentials, issued in March 2017. Governance research is being undertaken currently for the Commission by the Cass Centre for Charity Effectiveness and the Cranfield Trust. At its launch it was stated that

"anecdotal evidence suggests perhaps 25-30% of trustees are not aware of their role and responsibilities".

In the March 2017 publication of the House of Lords Select Committee report on Charities, Stronger Charities for a Stronger Society, 100 recommendations were made. Of these, 5 concerned inadequate trustee skills and training.

So it seems clear there is a significant weakness in the sector that will inevitably be holding back its success. What can be done about it?

Overcoming barriers to the establishment of strong trustee skills and competency in charity finance

Initiatives to improve charity governance are not new. Indeed the sector regularly submits itself to bouts of introspection. But despite some clear incremental improvements over recent decades, we have yet to see a fundamental shift in governance outcomes. A solution that is a panacea for all the concerns we have noted is clearly very illusive. However this survey suggests there may be four broad barriers to significant change, being:

1. **Recruiting trustees with the right SKILLS**
2. **Ensuring there are high levels of COMPETENCY, in those skills**
3. **Engaging trustees to secure appropriate COMMITMENT**

4. **Actively avoiding trustee COMPLACENCY**

Set out below are some observations concerning each of these areas together with practical suggestions how they could be overcome.

Recruiting trustees with the right skills

At the risk of raising the ire of those who struggle to recruit trustees with the skills they need, we would suggest that this may not be the most serious concern to overcome.

There is extensive sector guidance on trustee skills. A good example is the Charity Commission publication, *CC30 – Finding New Trustees: What charities need to know.*

Tools such as skills audits are widely understood, albeit if not always successfully applied. But it should be relatively easy to identify where a skills deficit exists in a charity. The *MHA MacIntyre Hudson/CFG Charity Finance Essentials guide* provides a helpful example of a skills map, where the two axis are formal finance skills and charity experience.

Once the profile of trustee need has been established there are increasingly diverse and robust methods for trustee recruitment. Recently the ICAEW has for example established an effective brokerage service to link its members with charities in need of board finance skills.

Ensuring competency

It is difficult to determine what makes someone competent. Essentially this is a potentially nebulous concept, but it is essential to define. Competency can be thought of as being dependent both on the quality of skills possessed, as well as the ability to use those skills successfully.

What can charities do to aid competency? Set out below are some practical suggestions:

1. Ensure your trustee induction processes are comprehensive and effective.
2. Budget for and then deliver regular, tailored and high quality training for trustees.
3. Use specific job descriptions for trustees, including generic areas applicable to all trustees and specific areas where particular skills are required to be demonstrated – these can be categorised into essential or desirable areas.
4. Adopt a competency framework for trustees which provides a detailed description of the knowledge and understanding needed to be held by trustees. The framework then allows individual trustees to be measured against the charity’s requirements, enabling gaps and development areas to be identified.

Securing Commitment

Whilst some trustees are incredibly dedicated to the charity they serve, there can in some instances be a failure to devote sufficient time and effort to fulfil their responsibilities effectively.

What can be done to encourage appropriate commitment? Set out below are ways to secure this from charity trustees:

1. **Put in place trustee contracts** – these are similar to employment contracts. They set out precisely the expectations of trustees in relation to their role including practical matters such as a commitment to time and to training, perhaps to include a formal programme of continued trustee development whatever their perceived experience.

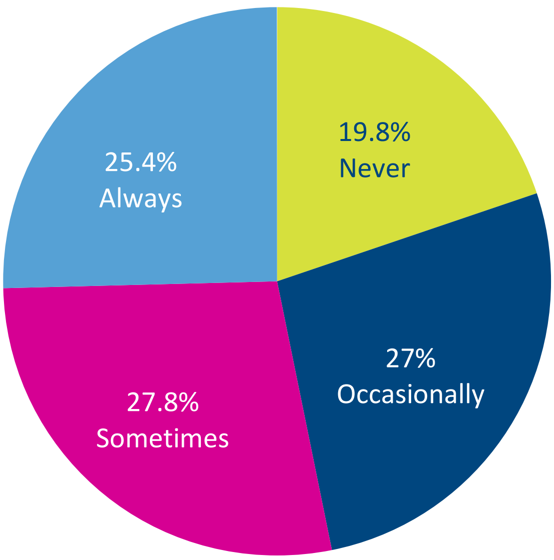
2. **Self-assess or review the performances of individuals, committees and boards.** Some charities use objective performance measures such as time spent on working on the charity's affairs, the adequacy of preparation for meetings, and the quality of decision-making.

3. **Focus trustee commitment on what really matters** – effective senior executives in charities undertake active upward line management of trustees, to get the governance they need. They also actively determine what is put on trustee meeting agendas, and ensure that trustee meeting papers only focus on the areas of strategic governance that trustees need to oversee.

Avoiding complacency

The survey indicated that only a quarter of charities always formally assess the effectiveness of financial governance.

Do you formally assess the effectiveness of financial governance in your charity?



Does this suggest there is active complacency in the sector? We would suggest not, as most trustees do genuinely want to do a good job. So is there unconscious or passive complacency? Maybe trustees just don't recognise their inadequacy. This could be due to an unwillingness to accept their failings. A glance through annual reports suggests charities have a distinct aversion to owning up to failure.

Alternatively trustees might just not know what 'good' looks like, or exist in a culture of mediocrity. In the absence of a universally accepted method for assessing and thereby comparing charity impact, there is a risk that making any sort of positive difference to beneficiaries is accepted as a success, however meagre.

In this scenario the often-used self-review approach is unlikely to be successful. Using self-review can also be limited in objectivity and effectiveness due to an individual's own perspective, experience, or knowledge. Accordingly, there will often be a need to stir things up more. How could this be done?

- **A key priority is to have an effective board chair.** Their role is to ensure there is effective governance, to challenge current practices as necessary, and to drive through changes when needed.

- **It is helpful to get an external viewpoint.** This may be through asking for support, assessment and guidance from suitable peers or a professional adviser, or by engaging a specialist consultant.

Conclusion

It is important not to be overly critical when considering these survey results.
A proportionate response is appropriate, considering the scale and complexity of each charity.

But as a minimum, this survey points to a missed opportunity to improve the effectiveness of charities through better financial governance, and thereby improve charitable impact.

We must also guard against complacency, which could leave charities vulnerable to future shocks and challenges in the years ahead.

It is hard to argue that strong financial governance is not a goal worth pursuing with persistent vigour, making use of the extensive guidance and tools that already exist and are promoted by sector bodies and professionals working in the sector. It is up to charities to commit to using them.

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