# The Scottish Governance Code for the Third Sector

## Image of logo: Scotland's Third Sector Governance Forum logo



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## Introduction

This governance code is a statement of best practice. It sets out the core principles and key elements of good governance for the voluntary sector in Scotland. We, Scot-land’s Third Sector Governance Forum, originally developed the code in 2018. It was the first code produced specifically for Scotland’s third sector, to address the need for the sector to have its own principles of governance.

We recognise that the sector’s understanding of good governance, and their expectations, change over time. So in 2022 we carried out a review of the code.
We would like to acknowledge the support of the Robertson Trust, which enabled us to carry out a wide-ranging consultation with the third sector. That consultation produced several recommendations. These are incorporated in this code, which was published in November 2023.

The code is intended for the governing bodies of third sector organisations – charities, community groups and social enterprises. It reflects and celebrates the good practice that exists in our sector and provides a standard all third sector organisations should aim for. Thank you to everyone who contributed – we could not have done it without you.

## About us

We are Scotland’s Third Sector Governance Forum. We bring together people and organisations with knowledge of and expertise in issues relating to governance (that is, the structure of rules, practices and procedures used to direct and oversee an organisation). We are a small group of people with a big ambition to improve governance in the third sector. You can find out more about us at goodgovernance.scot.

## Foreword

Good governance matters because it underpins successful organisations. It matters in all sectors, but especially in ours, where the purpose is to serve people, causes and communities as best we can. A good reputation takes years to build and seconds to destroy. Our effectiveness relies on good governance, which is the best way to protect and improve the reputation of individual organisations and our sector as a whole.

Over 250,000 trustees in Scotland are volunteers and give their time and skills to steer the work of third sector organisations. Individually as trustees, and collectively as boards, they maintain good governance.

This code has been created by the third sector, for the third sector. Please use it. Please share it. Please help promote good governance.

Anna Fowlie
Chair of Scotland’s Third Sector Governance Forum

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## Using the code

The code is for use by all third sector organisations in Scotland, whatever their shape, size or activities. The code’s principles apply equally to all organisations, but how an organisation follows each principle will depend on its size, income, activities and complexity.

## How it works

The code sets out five core principles that encourage third sector organisations to look at, and improve, their governance. All five principles are equally important.

Laws and regulations are fundamental to good governance. However, keeping to the code is not a legal or regulatory requirement. The code provides a standard for us all to aim for. It is there to support continuous improvement and strengthen the effective-ness of governance across the third sector.

The code is supported by the SCVO Good Governance Checkup, which is an online tool to guide you through the principles of the code. The Good Governance Checkup asks a series of questions about your organisation and gives you a personalised action plan with links to further resources. Your board can use the online tool to identify areas where you’re doing well, check where you can improve, and monitor your progress over time.

## Terminology

There are many different terms used for the governing bodies of third-sector organisations, such as:

* the board
* the committee
* the trustees, and
* the directors.

The difference between these terms usually reflects the different legal structure of organisations, and their history and culture. In this code we use the term ‘the board’ to mean an organisation’s governing body, which is ultimately accountable for the organisation.

## Equality and diversity

Understanding and keeping to the principles of equality, diversity and inclusion sup-ports and enables boards to be effective and informed, and to make better decisions.

The code is based on the understanding that all third sector organisations should fully recognise equality, diversity and inclusion (for example, diversity of background, thought and experience, as well as the protected characteristics defined by the Equality Act 2010). This is an essential part of good governance and underpins all five of the core principles.

## The five core principles

* The five core principles are:
* organisational purpose
* leadership
* board behaviour
* control and risk management, and
* effectiveness.

They are explained in more detail over the following pages.

## Tell us what you think

We would like to hear from you if you have any suggestions for ways the code could be improved or made more user-friendly. To get in touch, please email enquiries@scvo.scot

## Organisational purpose

###  A well-run board is clear about the purpose and values of the organisation and how it will achieve its aims.

### As the board, we are ultimately responsible for directing the activity of our organisation and delivering its stated purpose.

We will achieve this by doing the following.

* Understanding and regularly reviewing our organisation’s purpose and values, and committing to them to make sure our organisation delivers what it was set up to do.
* Making sure our governing documents are fit for purpose and set out the details of how our organisation will be governed.
* Making and recording informed decisions in line with our governing documents.
* Overseeing the use of assets and resources to make sure they are used to achieve our organisation’s purpose and aims.
* Communicating the work of our organisation and the difference it makes to the people we work with and the public.
* Evaluating the benefits and risks of collaborating or merging with another organisation.
* Assessing whether other organisations are fulfilling similar purposes to ours more effectively and, if so, deciding whether or not to wind up or dissolve our organisation.
* Making sure the principles of equality, diversity and inclusion are central to our ways of working and our decision-making.

## Leadership

### A well-run board is clear about its role and responsibilities and provides strategic direction in line with the organisation’s purpose, vision and values.

### As the board, we are here to lead our organisation, and we are individually and collectively responsible for our decisions. We need to make sure our organisation has a clear strategy to achieve our purpose.

We will achieve this by doing the following.

* Identifying our organisation’s vision and values and making sure these underpin all our decisions and activities.
* Having a clear understanding of the trustees’ individual and collective roles and responsibilities.
* Demonstrating good leadership and creating an inclusive culture through our own behaviour.
* Understanding and respecting the difference between governance and operations, delegating operational tasks where appropriate, while recognising that we are always accountable for our organisation’s activities.
* Making sure equality, diversity and inclusion are considered across all aspects of our organisation.
* Communicating with our staff, volunteers and members about our vision for our organisation and the decisions we make and listening to feedback.
* Leading and overseeing progress and performance by closely examining information on activities and achievements and their long-term effect.

## Board behaviour

### A well-run board, both collectively and individually, embraces and demonstrates mutual respect, integrity, openness and accountability.

### As the board, we understand that our behaviour can have a far-reaching effect and is fundamental to our organisation’s reputation and sustainability. We need to make sure our behaviour is consistent with our organisation’s vision and values.

We will achieve this by doing the following.

* Being open and honest about how we govern, who we are, and the decisions we make.
* Recognising and understanding that real and perceived conflicts of interest must be managed in line with the law, our governing document and our conflicts of interest policy.
* Creating a constructive environment where different, and sometimes conflicting, views are respected and welcomed, and decisions are reached collectively.
* Listening to each other, the people who benefit from our work, our members, employees and volunteers, and any other interested parties, and respecting the role they each play.
* Dealing with any dominant individuals or power imbalances which may affect our organisation.
* Making sure our organisation promotes equality, diversity and inclusion and incorporates these principles and ethical standards in the policies, practices and culture of our organisation.
* Making sure our organisation takes account of climate change and other environmental factors in its decision-making.
* Handling concerns and complaints openly, fairly and constructively.

## Control and risk management

### A well-run board will manage risk, maintain control and make effective decisions to direct and oversee the progress and performance of the organisation.

### As the board, we should put in place appropriate structures, financial controls, policies and procedures.

### These will help our organisation to identify and manage risks and opportunities in line with its purposes and values, our governing document, and relevant legal and regulatory requirements.

We will achieve this by doing the following.

* Understanding and keeping to all legal, contractual and regulatory requirements.
* Maintaining and regularly reviewing policies, procedures and reporting arrangements (for example, those relating to our internal governance, safeguarding, fundraising, financial controls, the environment, and equality, diversity and inclusion).
* Creating a safe and respectful environment for all and meeting our safeguarding responsibilities.
* Making sure our scrutiny and decision-making processes are thorough, informed, clear, well-timed and communicated effectively.
* Understanding and analysing the internal and external operating environment, to regularly identify and review the risks and opportunities our organisation is exposed to.
* Making plans to reduce and manage risks appropriately, to better achieve the purpose of our organisation.
* Monitoring and reviewing the sustainability of our organisation.
* Monitoring and evaluating our organisation’s performance against plans and budgets and making sure they are in line with our organisation’s purposes, strategic aims and resources.
* Making sure that any agreements, contracts and partnership working are in line with our organisation’s interests and values and are regularly reviewed.
* Getting appropriate specialist advice where necessary.
* Regularly reviewing whether our organisation’s legal and governance structure is fit for purpose and provides appropriate protection for our organisation and its stakeholders.
* Making sure there are effective financial controls in place and that we receive clear information so we can monitor our organisation’s financial position.
* Being ultimately responsible for our organisation’s decisions and actions, and making sure that delegation is clear, appropriate, effective, properly documented and supervised.
* Making sure processes and procedures are in place and followed to provide ongoing support and safeguarding for staff and volunteers, and fair employment practice.

## Effectiveness

### A well-run board understands its role, powers and duties, and works collectively and proactively to achieve its organisational purpose.

### As the board, we should work together as a team, with an appropriate range and balance of skills and experience, to continually improve the governance of our organisation.

We will achieve this by doing the following.

* Understanding our organisation’s values and purposes, legal structure and governing documents, and making sure we act in line with them.
* Setting and monitoring the strategic direction of our organisation.
* Regularly reviewing our performance and the skills on the board.
* Developing and improving our capability through ongoing support and training.
* Having a clear plan and process in place for replacing trustees when their time on the board comes to an end, and making sure this is linked to the strategic direction of our organisation.
* Following any rules for how trustees are elected and how long they serve.
* Having a clear and well-timed recruitment and induction process for trustees.
* Identifying, and putting into practice, opportunities for diversity and representation on our board.
* Putting equality, diversity and inclusion at the centre of how we work.
* Making sure that meetings are well-organised, well-informed and effectively chaired, and that people actively take part.
* Making sure we use our meetings to explore important issues and make informed decisions that are recorded and acted on.
* Communicating with those who have a legitimate interest in the work of our organisation.

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