Accountability and Transparency

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Foreword

Public trust and confidence in all social institutions is declining. Although this has not yet reached critical levels in the voluntary and community sector, it certainly could be higher than it is. And there are a number of reasons why we should be concerned for the future: many people are critical of the sector becoming too ‘professional’; the media appears readier to challenge or criticise voluntary and community organisations (VCOs) for the use of particular fundraising methods or campaigning activities; and VCOs are increasingly in the spotlight as they take on a more mainstream role in delivering public services.

In recent years the need to enhance public trust and confidence has been a central focus of NCVO’s work, for example through the Trustee and Governance Team and our support for the Quality Standards Task Group. It has also been key to our work on charity law reform. The draft Charities Bill now being considered by Parliament will go some way towards promoting confidence in the sector. But there is more that organisations themselves can do.

Voluntary action relies on public support, on people’s willingness to give time and money to causes they care about as well as their tacit goodwill towards the sector as a whole. And therefore people’s trust and confidence in VCOs is vital to the health of the sector: the more that can be done to increase trust, the healthier it will be. This means showing that we can be trusted to make a difference, not only delivering value-for-money but also adding value, and being honest about what this costs.

This report considers the challenges ahead, examining the extent to which VCOs are already accountable and considering what more we could do: not just to maintain public trust and confidence but to enhance it. There is a limit to what a single organisation can do on its own, but much more could be done by organisations acting in concert, taking the debate to our critics, not simply reacting to criticism.

In June 2004 NCVO held a seminar attended by representatives from some of the largest fundraising charities to discuss how we can address these issues in a transparent and sustainable way. It was agreed that NCVO would set up a working party to develop practical proposals for taking this forward and consult widely to get the views of organisations across the sector: this is as important an issue for smaller organisations as it is for larger ones and we want to hear as many views as possible.

NCVO is keen to work with other organisations to address these issues. If you would like to work with us or join a working group please contact Belinda Pratten on 020 7520 2558 (direct line) or by email: belinda.pratten@ncvo-vol.org.uk.

Stuart Etherington
Chief Executive
Accountability & Transparency

‘The voluntary sector, in all its diversity, has in common both some distinctive forms of governance and a set of values which are not determined by the financial bottom line or by an electoral mandate. These values include not just what you do, but how you do it. Voluntary organisations also have a set of distinctive relationships with their different stakeholders: those who fund them, use their services, and work in or with them. Our concern is to try to turn good intentions into accountable and effective action without forfeiting what is distinctive about the sector.’

Introduction

In recent years there has been an upsurge of interest in the accountability and legitimacy of voluntary and community organisations (VCOs), both in England and abroad. In part this may be linked to the relatively higher profile of the voluntary and community sector (VCS) arising from the prominence of VCO-led campaigns and the increasing role of VCOs in providing public services. But it is also the case that debates about the sector’s accountability are taking place against a backdrop of declining public trust and confidence in all social institutions, public, private and voluntary. And it is this that is of greatest concern to VCOs: people’s willingness to participate in voluntary action and support VCOs is based on the belief that VCOs can be trusted to make a difference. A more cynical and less trusting public is therefore likely to demand more evidence of this before agreeing to support a cause. VCOs will need to be clearer about what they do, how they do it and how well they do it, if they are to continue to mobilise public support and consent.

Public trust and confidence

There is now a growing body of evidence to suggest that public trust and confidence in institutions is declining. This decline is linked to the fact that today people are less deferential and have higher expectations of services than in the past, but it has also been linked to the issue of accountability and to a perceived lack of transparency in the way these institutions function. For example, in the private sector this has been fuelled by scandals from Maxwell to Enron, whilst in the public sector it has given rise to the use of targets and league tables that seek to hold providers (including professional providers) to account. Although most commentators agree that the voluntary sector still enjoys higher levels of public trust than other sectors, nevertheless there is a downward trend and, as Plowden notes, ‘public confidence in charities could certainly be higher than it is’. There is a strong case for not simply shoring up public trust and confidence in the VCS at the current level, but also enhancing it.

Voluntary action is reliant on public support and goodwill, including people’s willingness to give up time and money to causes they care about. In the face of evidence suggesting that people are more likely to question, and less likely to take on trust, an organisation’s claims for itself, VCOs need to convince donors and supporters that their cause is worthy and that they can be trusted to make a difference. Therefore they need to engage with the public in ways that will maintain and enhance people’s trust and confidence and to recognise this is a key aspect of their accountability. And they will need to take account of public concerns about the sector and how it operates. As other sectors have learned to their cost, once public trust and confidence have been lost it is very difficult to regain.

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2. NCVO, 2003, *Voluntary Sector Strategic Analysis 2003/04* NCVO
It is clear, for example, that a key public – and media – concern is how much money actually goes to beneficiaries and how much is spent on fundraising and administration costs⁴. The media can make good copy if a charity is perceived to be spending a disproportionate amount of its income on professional fundraisers, ‘plush’ offices or ‘fat cat’ salaries, as recent debates in the press concerning ‘chuggers’ (face-to-face fundraisers) have shown. Such stories have a negative impact on public trust and confidence in the sector as a whole, even though they are often based on unrealistic expectations of these costs and, indeed, of voluntary and community organisations themselves: VCOs are expected to become increasingly professional (for example investing in performance improvement strategies), without an understanding of the resources needed to achieve this.

As is the case at present, these debates will take place whether the sector engages with them or not; it is therefore in our own interests to take the lead, not least so as to create reasonable expectations of costs and benefits. Greater transparency about what VCOs do and how they do it would facilitate a more intelligent debate on these issues, enabling them to be addressed in the broader context of the efficiency, effectiveness and ‘added value’ of the sector.

**Independence**

At the same time government policy has given the voluntary and community sector much greater visibility than before⁵, increasing the extent to which it is subject to public and media scrutiny. This has led some to question whether it is up to the task and, specifically, whether existing governance and accountability mechanisms are robust enough for this role. A frequent criticism of the sector is that it is comparatively less accountable than other sectors and that the mechanisms that do exist, eg in relation to governance or performance management, are weak. In this view, VCOs have neither the financial accountability of private sector organisations, the ‘bottom line’ of profits and dividends, nor the political accountability of the public sector, the democratic mandate given to the state and to state institutions⁶. What this fails to understand is that VCOs have their own bottom line: how effectively they meet the needs of their beneficiaries and gain public support for their cause. This is at least as important a motivation for VCOs as shareholder value is to private companies but this must be made transparent.

There is also a danger that the greater visibility of VCOs as service providers will eclipse their wider social and political roles, such as raising awareness of particular causes or needs, promoting community participation or giving voice to people’s concerns. Although government is now the single largest funder of the sector, providing 37% of income, it is still the case that well over half of funds come from independent sources.⁷ But unless people can see that VCOs are concerned with more than meeting government objectives or securing the next contract, then public support for the sector will be more difficult to achieve. It is important that VCOs demonstrate their broader accountability to their donors and supporters over and above any relationship they may have with government, or indeed any other funder, to assert the primacy of their own mission and values as well as their independence.

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⁵ Kendall, 2003 *The Voluntary Sector*, Routledge
⁷ Wilding *et al*, 2004, *UK Voluntary Sector Almanac*, NCVO
The way forward

Maintaining public trust and confidence in the VCS was at the heart of the Strategy Unit’s review of charities and the wider not-for-profit sector. Its recommendations, published in 2002, sought to introduce measures to achieve this, for example by modernising charity law, improving the performance of VCOs and promoting good practice in charity fundraising. In each of these areas the review was able to build on developments instigated and being taken forward by the sector itself: it was not reporting into a vacuum. This perhaps explains the high level of support the proposals received from within the sector. It also demonstrates that the sector takes these issues seriously.

Therefore it is important that these developments aimed at improving self-regulation are given time to be disseminated and become embedded more deeply in the culture and operation of VCOs. There is also a need to ensure that existing accountability mechanisms are used effectively and to recognise the extent to which VCOs may be held to account at present, eg. through bodies such as the Charity Commission. The VCS is not an unregulated sector. But while regulatory requirements are an essential element of accountability, they are also limited, offering organisation’s little opportunity to engage with supporters or convince people of the legitimacy of their cause. That can only be achieved by VCOs becoming more transparent in what they do and what they achieve.

It is essential that voluntary and community organisations engage in this debate and take an active role in shaping both policy and practice. Failure to do so will mean that external voices will dominate and could lead to the imposition of accountability mechanisms that address the concerns of the sector’s critics but do not meet the needs of VCOs themselves. This will require a collective, proactive response from the sector as a whole. This paper sets out the reasons why VCOs should address the question of accountability and transparency and highlights developments already underway within the sector that seek to do this. It also examines external criticisms and the extent to which these might be justified, arguing that accountability mechanisms must meet our needs and purposes and future developments should build on existing good practice: VCOs can learn from other sectors, but there is also much they can learn from us.

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8 Strategy Unit, 2002, Private Action, Public Benefit, Cabinet Office
2. What is Accountability and Transparency?
Before looking at the question of accountability it is useful to examine what this means, both in general and in relation to the voluntary and community sector specifically, and to consider the relationship between trust and transparency.

Accountability
According to the Compact Oxford English Dictionary, to be accountable is to be required or expected to justify actions or decisions and to give a satisfactory record or explanation. Such an account may include both a description of an event or experience and a record of financial expenditure and receipts. It also implies a relationship: that there is one party that is owed an explanation or justification and one that has a duty to give it. Beyond this, however, it becomes more difficult to pin down what accountability means or what it means to be accountable. In so far as it involves a relationship between two or more parties it implies that there is a common language of accountability and a common set of expectations about what is involved. Yet it is clear that across all sectors the language of accountability evolves over time and in response to events such as well-publicised scandals and changing public expectations.

And as Day and Klein suggest, accountability is far from being a neutral, technical process. Even at a very basic level of measuring performance against objectives and outputs against inputs, the process is not clear-cut: questions such as how objectives are defined (and by whom), or what is meant by ‘performance’ or ‘impact’ are critical. Similarly debates about fundraising and administration cost ratios demonstrate that accountability can be controversial. Therefore it is best understood as a value-laden process, which begs the questions: whose values count? Who has the power to determine what should be accounted for? Such questions are particularly pertinent for voluntary and community organisations that are value-driven and have multiple accountabilities to a range of stakeholders.

Questions of power and values are as much about relationships as about process. This can be seen most clearly in Leat’s model of accountability that encompasses the following activities:

- Being held to account – by stakeholders or on their behalf, via sanctions or other methods of redress which enforce the right to effect change.
- Giving an account – providing stakeholders with an explanation or information to report what has taken place and the outcomes of that activity.
- Taking account – of stakeholder’s needs and views and responding to these by examining and, if necessary, revising practices or enhancing performance.

Some commentators, including Leat, suggest that it is only the first of these that ensures effective accountability: the ability to ensure an organisation lives up to its commitments and to back this up with sanctions. Plummer, for example, has argued that ‘service deliverers and others are truly accountable only to those able to exercise sanctions over them’. However, whilst this is important, by itself it implies a narrow, legalistic form of accountability that potentially privileges some stakeholders (those with the power to hold to account) over others and certain activities (avoiding sanctions) over others.

9 Day & Klein, 1987, Accountabilities: Five public services, Tavistock Publications
10 Leat, 1986, Voluntary Organisations and Accountability, NCVO
As independent, self-mandating organisations, VCOs are primarily accountable for their own mission and values and must be clear about communicating these to stakeholders and to the wider public. This highlights the importance of accountability measures that enable voluntary and community organisations to give an account of themselves in their own terms and according to their own ethos. There is a danger that too great an emphasis on holding organisations to account will undermine their autonomy and purpose.

It is equally important that VCOs take account of the views of their stakeholders, and particularly those of their supporters and beneficiaries. VCOs have multiple stakeholders to whom they should be accountable, including beneficiaries; funders; external regulators (eg the Charity Commission); staff; volunteers; and the wider public. Each group has different and potentially conflicting interests and different information needs. But they also vary in their ability to exert sanctions: those stakeholders with the least power may be least able to hold an organisation to account. For example, beneficiaries may have little formal power, but an organisation that takes account of their views, and can demonstrate this, may in fact be more effective than one that seeks merely to avoid sanctions.

**Transparency**

A greater emphasis on organisations giving their own account places the onus on them to be honest and transparent. According to the Concise Oxford English Dictionary, transparency literally means ‘allowing light to pass through so that objects behind can be distinctly seen’; and it is related to clarity: ‘the state or quality of being clear’ and ‘easily perceived or understood’.

VCOs rely on public support, both directly in the form of donations of time and money, and indirectly, in terms of public goodwill towards the sector as a whole. And whereas in the past it may have been enough simply to assert that your cause is worthy, today people are more ready to question and challenge such assertions: the halo effect does not allow sufficient light to pass through. VCOs need to open up their decision-making and conduct to public scrutiny, to justify and explain their role in such a way that it can be easily perceived or understood.

As argued above, appropriate external regulation – holding organisations to account - is a necessary form of accountability, but by itself is limited. There is a need to develop approaches that recognise and address the complexity of voluntary sector accountabilities, the diversity of the sector and the independence and autonomy of VCOs. This requires a broader understanding of accountability and a greater emphasis on effective communication. It also requires VCOs themselves to take responsibility for this and to take their accountability seriously; to be more transparent in what they do and how they do it. Greater transparency is needed to:

- maintain public trust and confidence in voluntary action and in the actions of voluntary and community organisations;
- strengthen relationships with stakeholders, particularly donors (of time and money) and others who support an organisation’s mission or cause;
- generate a greater understanding of what individual organisations are for and how they achieve this;
generate a greater understanding of what the sector is for and how it operates, including understanding of the wider social and political roles that VCOs undertake; and

- justify the sector’s expanding role in civil life and in providing public services as a consequence of government policies in these areas.

**Trust and confidence**

Trust and confidence are closely inter-related concepts, but are not entirely synonymous. Confidence is based on contract or agreement; it is about meeting predicted outcomes and rational expectations. Confidence is critical to commercial transactions, particularly the confidence of investors who are in a sense betting on a company’s future performance and profitability. Provided that this exists, the extent to which the company is trusted by the public, or indeed can be trusted, is of less importance. This can perhaps be seen in the muted public response to scandals such as Enron and WorldCom. Activities that promote confidence, such as monitoring and audit, are designed to enable organisations to be held to account, eg. in terms of their legal or contractual obligations.

Trust is based on shared values and ethos and is fundamental to activities in the public domain, to both the state and civil society\(^ {12}\). Trust relationships require a high degree of transparency and openness. But this is not just about the information provided, it is also based on people’s direct experience of the organisation or service, the way they are treated and whether they perceive it to be trustworthy: does it deliver on what it promises, does it take account of their views?\(^ {13}\)

As argued elsewhere, ‘trust is the voluntary sector exchange rate’\(^ {14}\); it is an essential component of voluntary action and voluntary giving, of time and money, and reflects the fact that the relationship between an organisation and its supporters is based on shared values and a common mission or cause. Voluntary and community organisations also play a key role in generating trust, by bringing people together to achieve common goals. Again this highlights the need for greater transparency, for an organisation to demonstrate that it is trustworthy, that it delivers, in order to maintain public trust and support.

And it also shows a need to take account of the issues that most concern the public: how money is raised and spent, how much of their donations actually reach beneficiaries, and what difference it makes. There is an opportunity here to engage honestly and openly with these issues, not so much to allay people’s fears, but to demonstrate the necessity of fundraising and administration costs and what can be achieved as a consequence of such spending. Greater transparency would also enable VCOs to take account of the interests and concerns of their supporters (actual and potential) and to challenge popular misconceptions (or media misrepresentation) of their cause, particularly if this may otherwise be perceived as unpopular or ‘unworthy’. And it would enable the public to decide whether their support for and trust in a particular organisation is justified.

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12 Marquand, 2004, *Decline of the Public*, Polity
3. Holding to Account

Underlying external debates about the sector’s accountability is a perception that ‘practical measures which allow interested stakeholders to hold voluntary organisations to account are not present’. This implies a need to strengthen regulation. However before we unquestioningly accept this assertion, it is important to recognise the extent to which VCOs are currently held to account, for example by regulators and funders, as well as the limits of external regulation as a means of enhancing public trust and confidence in the sector.

Regulation

Most voluntary organisations are accountable to one or more regulator(s), in addition to regulatory conditions imposed by funders. Firstly, there is regulation in respect of compliance with charity law and/or company law (for organisations incorporated as companies limited by guarantee). This is overseen by the Charity Commission and Companies House respectively. The purpose is to check that organisations are complying with their legal obligations, for example in relation to standards of governance and financial probity, and to be able to identify mismanagement or fraud. At the same time VCOs must ensure they comply with other legal obligations, where appropriate, such as those deriving from employment law or health and safety legislation.

Secondly, regulation exists to protect vulnerable users of services, such as frail older people or children in care, irrespective of whether these services are provided by the public, private or voluntary sector. For example, the National Care Standards Commission regulates social care and health services provided by the private and voluntary sectors in England. It sets national minimum standards of care, against which providers can benchmark the quality of their service.

Within the voluntary and community sector it is recognised that appropriate regulation is necessary and beneficial, both to the organisation and its users or beneficiaries. And there is general agreement that for those organisations that are deemed to be charitable and receive the benefits of charitable status (eg tax concessions) there is a clear and transparent regulatory system that meets the needs of charities and promotes trust and confidence amongst the wider public, including funders and donors. This is evident from responses to the Strategy Unit review and particularly from smaller charities (with an income below £10,000), which strongly objected to the proposal that they should no longer be registered because they felt strongly that registration enhances public confidence.

However, regulation can also impose a burden on VCOs and there is a danger that in strengthening the extent to which VCOs are held to account, this burden will become disproportionate to the benefits to the public and will stifle innovation as VCOs become more risk-averse. Moreover, far from seeing themselves as being under-regulated, some VCOs are concerned that they are being asked for the same information from different regulators or funders, but are required to present it in different formats; or they must comply with a particular quality assurance system favoured by the regulator or funder, rather than one that meets the needs of the organisation. Such duplication of effort can be a considerable source of frustration for voluntary and community organisations. This would be mitigated by a greater willingness to share or ‘passport’ information between regulators and with more negotiation with VCOs themselves.

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15 Performance & Innovation Unit, 2001, Modernising the legal and regulatory framework for charities and the voluntary sector, Cabinet Office p.2
Regulatory mechanisms are concerned with compliance, ensuring that VCOs work within the law and meet certain standards of conduct or care, but they are limited in their scope and it is difficult to extend this without increasing the burden of regulation. For example, NCVO has long been concerned that the Charity Commission increasingly sees itself as taking a leading role in disseminating ‘best practice’ advice. The problem with this is not only that it is confusing for trustees, but there is also ‘a very real risk that the guidance and best practice advice will become de facto regulation’.16

Moreover, this formal level of accountability underpins but does not replace an organisation’s wider obligations to its other stakeholders. VCOs see themselves as being formally accountable to regulatory bodies as well as other key stakeholders. This was apparent, for example, in a 1996 study for the think tank Demos. To take two cases from that study: at that time the charity Scope saw itself as being legally accountable to the Charity Commission, but also as being accountable to its members and more widely to ‘all people with disabilities, their families and carers’; Shelter also defined its donors as stakeholders and saw itself as being accountable to the public in general.17 Like all relationships, these are not static and may change over time within the same organisation, as well as reflect differences between organisations. But this does suggest that VCOs have a broader conception of accountability, one that is concerned with their legitimacy as well as their probity. This will be discussed further in the next chapter.

Role of Funders
In looking at the existing ways by which VCOs may be held to account it is important to consider the role of funders and particularly the role of government, as the largest single funder of the sector.18 Increasingly funding to VCOs is linked to achieving particular outputs or outcomes and may be subject to assurances about an organisation’s efficiency and effectiveness, for example whether it has appropriate employment policies or an approved quality assurance system in place.

Provided that such demands are appropriate and proportionate, they are not unreasonable: in a more competitive funding environment it is in an organisation’s own interest to be able to demonstrate what it does and how well it does it, as well as its financial probity. And it is entirely appropriate that they should be able to account for funds received, whether in the form of a grant or contract, and show that the money has been used for the purposes for which it was given and used efficiently and effectively. However, as noted above this should not add to the burden of regulation by increasing the complexity of voluntary sector accountability, as organisations juggle what may be quite different monitoring and reporting requirements and timescales: funders, like regulators, need to be aware of the implications of their individual requirements.

A further concern is that of ‘mission drift’: where an organisation is dependent on a single funder, there is a danger that the funder will have undue influence or leverage, such that its objectives have a greater priority than those of the organisation and its voice is given greater prominence than other, equally legitimate stakeholders. That is not to say that this does happen, but it is a possibility. Perhaps of greater concern is that the public come to believe this is so. And given the fact that many VCOs are now funded to provide services on behalf of the state, the danger is that people will see the sector as merely an extension of it. VCOs must make it clear that they are only accountable to funders for the specific projects or activities funded, not for the

16 NCVO, 2001, For the Public Benefit? NCVO
18 Wilding et al, 2004, UK Voluntary Sector Almanac, NCVO
organisation as a whole. There is still a need for the organisation to give an account of its activities and achievements in relation to its mission and values to a wider audience, and to show how particular projects have contributed to this, in order to maintain public support for its cause.

**Reporting requirements**

A key aspect of regulation is the reporting requirements this places on VCOs. A recommendation from the Strategy Unit was that existing reporting mechanisms, particularly for charities, should be strengthened. However, the charities Statement of Recommended Practice (SORP) is not a user-friendly document. It is primarily concerned with financial accounting and probity and it is written in language that few trustees, let alone members of the public, understand. Preparing the SORP is perceived to be a technical process requiring the technical expertise of finance directors and auditors; supporting information in the form of the Trustees Annual Report (TAR) is seen as little more than the Board’s acceptance and endorsement of the audited accounts. This perhaps explains why in past years a relatively high proportion of charities have failed to submit their accounts and annual returns on time: in 2002 more than one third of charities had not done so. This failure reflects badly on the sector, potentially undermining calls for greater self-regulation, and it is clearly detrimental to public trust and confidence in the sector.

In light of the perceived limitations of the SORP many charities also produce an annual review. However such documents have been criticised as being little more than public relations exercises, designed to encourage donations rather than promote transparency. As a survey by the Smart Company found, ‘most reports were overwhelmingly positive in tone and that the bulk of the text emphasised organisational achievements’, with little attempt to engage with ‘the interests and concerns of external stakeholders’.

This suggests that there is a need to improve existing reporting requirements, rather than invent new ones. For this reason the Charity Commission has since revised its guidance about what should be included in the TAR to give a greater focus on a charity’s aims, activities and achievements in the year and how this relates to the financial information provided. This is in line with the Strategy Unit’s suggestion that reporting should enable people to gain a clearer picture of what a charity does and how it spends its money and should address some of the problems with the current SORP.

However, the Strategy Unit also called for charities to provide more comparative information, for example in relation to ‘methods for apportioning costs and expenditure’. The intention being that members of the public, particularly donors, should be able to use this information to make comparisons – and choices - between charities. The question of achieving greater consistency in the way costs are allocated is again one which has concerned the sector, for example both the Institute of Fundraising and the Charity Finance Directors Group have been examining ways of improving this. However whilst this might be useful information, it will only be meaningful if placed in context, that is in relation to an organisation’s individual circumstances and its longer-term goals as well as its activities in any one year.

This is an area where transparency is more important than comparability: it is more important that an outside reader has a clear understanding of an organisation’s expenditure, and how it uses this to achieve its goals, than tries to compare that of different organisations with different

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19 Bolton, 2003, *Setting the record Straight*, The Smart Company p.8
20 see for example: CFDG, 2004 *Inputs Matter*, Charity Finance Directors Group
missions. And there is a need for a wider public debate about, and understanding of the necessary and legitimate costs of fundraising and administration, not a competition to see which organisations have the lowest costs.

The need for charities to improve the information they give to the public and to improve the consistency of the information they provide was also the purpose of the Strategy Unit’s recommendation that charities should complete a ‘Standard Information Return’ (SIR). There is support within the sector for a short form that would enable charities to inform donors and supporters, actual and potential, about their aims and achievements, but there is also a concern that in reality the primary audience is to be the Charity Commission and its purpose is to facilitate comparison between organisations, rather than enhance transparency

The SIR is potentially a useful tool, provided that its content and format are designed with the public in mind: the role of the regulator should be to ensure that charities for whom this is a requirement (those with an income over £1 million) complete this form and to make the information available to the public. It should be noted, however, that this pre-empts developments within the sector, particularly the introduction of GuideStar UK, a sector-led initiative that will make information about charities available on its website to which the public will have free access. The main source of information will be data provided to the Charity Commission including the TAR and financial accounts but charities will also have the opportunity to voluntarily provide additional information about their activities and achievements.

There are clearly tensions between self-regulatory approaches and those that are reporting-led. As the experience of the public sector has shown, an undue emphasis on external reporting can be counter-productive. Evidence to the Public Administration Committee found that whilst it can be a means of holding organisations to account, it can also distort priorities, as organisations direct their attention to meeting reporting requirements rather than meeting needs. And as the PAC also argued, different types of information are required for different purposes: information needed internally, to support learning and improve performance, is very different to that needed to enable the public to assess how well services are performing. For example, activities such as benchmarking are useful tools provided that they are used to enable an organisation to learn about itself and not to judge success or failure. An organisation should be primarily concerned with its own progress, rather than where it stands in relation to others. The aim should be to raise standards of reporting, rather than seek to achieve standardisation.

But the key question is whether the provision of comparative information will enhance public trust and confidence in the voluntary and community sector. Again the experience of the public sector is instructive here: critics have argued that confidence-building measures, such as audit and league tables, have undermined trust, not least because they are founded on a distrust of professionals and other service providers and therefore a need to hold them to account.

There is some evidence to support such criticisms: research by the National Consumers Council suggests that people’s personal experience of public services is mostly positive, they are satisfied with their GP or their children’s school, but satisfaction with the health service or schools in general is much lower. They tend to assume that they are ‘lucky’: they trust those with whom they have a personal relationship but have little confidence in the service as a whole. As argued

21 Abdy & Pedley, 2004, Research into the concept of a Standard Information Return, NCVO/Charity Commission
23 Marquand, 2004, Decline of the Public, Polity
24 National Consumers Council, 2003, Expectations of Public Services: Consumer concerns, NCC
in the previous chapter, trust and confidence are not the same and measures to promote confidence do not necessarily generate trust. A system based on comparison inevitably leads to a perception of winners and losers. And just as inevitably media attention (and therefore the public’s) focuses on the losers, even if the so-called losers are in fact delivering a good service. Comparisons will be made, and increasingly so as more information about the activities of VCOs come into the public domain. But that is all the more reason to be open and transparent, to enable the public to put this information into context and set the terms of debate.
4. Accountability, transparency & legitimacy

It is becoming increasingly apparent that voluntary and community organisations need to engage with a public and media more ready to question and challenge their motives and actions than in the past. Although it is still the case that people are willing to support causes that affect them personally (such as cancer research) or that they think is important (e.g. environmental protection), and often to do so on the basis of limited information, such support cannot be taken for granted: people are also more willing to question whether a cause is ‘worthy’ or not.

Evidence from the 2004 UK Voluntary Sector Almanac shows that individual charitable giving continues to be a significant source of income, amounting to £7.3 billion in 2002, with more than two thirds of the population (67.3%) giving in any one month. But whilst the total amount given since the mid-1990s has risen, the number of people giving has declined with fewer people giving more money. Although this does not, by itself, indicate a rapid decline either in terms of public support for specific causes or general goodwill towards the sector as a whole, it does mean we should not be complacent. As Wilding et al have argued:

‘Individual donations are important not just as a source of income but also as an indication of the level of trust that the general public have in charities. Giving offers a way in which people can engage with the sector as well as make a positive contribution to causes they care about.

As we saw in the previous chapter, formal regulatory mechanisms can help to build confidence in the sector, but are limited, both in terms of the extent to which it is appropriate to hold independent organisations to account and as a means of building trust between an organisation and its stakeholders. Nor does it address broader concerns about the legitimacy of VCOs, their right to campaign and to ask for public trust and support. As Slim argues, an organisation’s legitimacy is only partly derived from its compliance with legal or regulatory requirements, it also has a moral basis, that is its mission and values and how it achieves these. This requires a broader understanding of accountability, one that places a greater emphasis on trust and transparency, rather than conformity and comparability.

This places the onus on VCOs to be open about what they do and why they do it; to show that they are trustworthy and that they provide a legitimate response to a legitimate cause. But there is also a need to place this debate in the context of the sector’s distinctive role: failure to persuade people of this could mean that VCOs are undervalued (e.g. seen as just another service provider) or compared unfavourably to other sectors, eg. in terms of their efficiency or accountability. This means convincing people not just of the benefits of what VCOs do, but the added value they provide.

The distinctive role VCOs

Voluntary action enables individuals to come together for a variety of reasons: for example, on the basis of shared interests (such as leisure or religious pursuits); to provide self-help or mutual aid; for reasons of altruism; or to campaign for a cause they feel strongly about. In this way it

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25 Abdy & Pedley, 2004, Research into the concept of a Standard Information Return, NCVO/Charity Commission
27 Wilding et al, 2004, UK Voluntary Sector Almanac, NCVO
28 Wilding et al, 2004, ibid, p.90
29 Slim, 2002, By What Authority? The legitimacy and accountability of non-governmental organisations
International Council on Human Rights Policy
contributes to a vibrant civil society and people’s active participation within it. It is this relationship between voluntary association or voluntary action and civil society that gives rise to the sector’s key characteristics of independence and diversity. However it is not clear that the public really understand what the sector is for, or how it works; indeed evidence that people are primarily concerned with how services are provided and funded, rather than the wider aims of voluntary action\textsuperscript{30}, suggest otherwise. This suggests that there is a need for VCOs, and umbrella bodies, to be more effective at informing people about the role of the sector and the range of causes and activities VCOs legitimately undertake.

As independent organisations, VCOs undertake a wide range of activities to meet their goals: some may provide services as a means of better meeting the needs of their beneficiaries and furthering their cause, others take a more campaigning or advocacy approach; many will do both. The key here is the fact that VCOs are ‘cause-led’, rather than ‘activities-led’, and their independence gives them a certain amount of freedom and flexibility to develop new ways of meeting their goals. Mechanisms designed to promote VCS accountability therefore must respect the independence of individual organisations, be flexible enough to take account of the diversity of the sector and appropriate to the size of the organisation and the risk involved. At the same time, however, VCOs must recognise that their independence and freedom may also ‘raise legitimate questions about responsibility, mandate, constituency, accountability and sustainability’, and that such concerns can best be addressed by ‘full transparency and high standards of performance’\textsuperscript{31}.

**Governance**

Voluntary organisations are independently governed. That is, legal and financial responsibility for the affairs of the organisation rests with its trustees in the case of charities, or with a management committee for those that do not have charitable status. Where resources allow, trustees may delegate responsibility for day-to-day running of the organisation to paid managers; however in others, particularly small or local organisations, trustees or volunteers may play an active role in overseeing their affairs. But all VCOs must ensure that their actions further their mission, as the Deakin Commission argued, they: ‘…must be absolutely clear about what they are trying to achieve and that this directly serves their purposes. This provides a standard against which all pressures, demands and opportunities can be judged’\textsuperscript{32}.

It has long been a key principle of the sector that VCOs are governed by a voluntary trustee board or management committee, that is they are unpaid and take on this role in the public interest, not for self-interest. And it is this principle of voluntarism that has defined the sector and to a large degree continues to do so. Recently it has been argued that these arrangements provide insufficient checks and balances and do not provide adequate safeguards, particularly when it comes to the use of taxpayers’ money. Even within the sector there have been calls for VCOs to take become more like private sector organisations in terms of their governance structures. However, we need to be clear about how effective private sector mechanisms really are and whether they are appropriate to the needs of the VCS before deciding whether this is a model we want to follow. A commercial company is owned by and accountable to its shareholders, who have a financial interest in its success or failure. Their

\textsuperscript{31} Marschall, 2003 Legitimacy & Effectiveness: Civil society organisations’ role in good governance
\textsuperscript{32} Commission on the Future of the Voluntary Sector, (Deakin Commission), 1996, Meeting the Challenge of Change, voluntary action into the 21st Century, NCVO
interests are represented by non-executive directors of the company. As the well-publicised scandals of Enron and WorldCom have shown, investors may take little interest in how a company is governed whilst the value of their investment increases. Indeed these scandals drew attention to the failure of non-executive directors to provide sufficient overview or scrutiny of executive decisions or to hold executives to account.

VCOs, on the other hand, are overseen by trustees or committee members who have no financial interest in the organisation. Rather they have a legal and moral responsibility to ensure that an organisation’s resources and activities provide maximum benefit to their beneficiaries and cause and are used appropriately to further the organisation’s mission or cause. For Deakin a common and consistent theme across the sector is the inadequacy of resources available to voluntary organisations: ‘Making the best possible use of resources to meet the organisation’s core objectives should therefore be the voluntary sector’s equivalent of maximising value for shareholders’\(^ {33}\). In other words pressures and incentives do exist in the voluntary sector, but the ‘bottom line’ is more complex, reflecting the more complex motives of voluntary organisations. And the fact that scandals similar to those in the private sector are comparatively rare, suggests that this system does provide sufficient oversight and encourage financial probity.

That is not to say there is no scope for strengthening or improving governance in the VCS, but to argue that any such measures that must be appropriate to the needs of the sector and in line with the principles that underpin it. It is also important that debates about the way VCOs are governed are informed by an understanding of existing arrangements, as Cornforth has found, much of the literature on VCO boards is prescriptive, aimed at addressing shortcomings; there is little empirical evidence about how these boards work in practice\(^ {34}\). Greater transparency will facilitate a more informed analysis of the strengths and weaknesses of current arrangements.

**Legitimacy**

VCOs also need to be clear about how they derive their moral legitimacy, demonstrating the worthiness of their cause and their role in promoting it. This is most often called into question where VCOs take on a campaigning role, criticising political or commercial interests, for example: their right to represent or to criticise may not always evident to others, particularly those on the receiving end of campaigns or criticisms who are increasingly asking: who do VCOs represent and to whom are they accountable?

For Slim, an organisation’s moral legitimacy is derived firstly, from its relationships with beneficiaries, funders, policy-makers and the public at large; secondly, from its expertise, including its knowledge of the field and experience of working in it; and thirdly from its effectiveness, how well it achieves its goals and the difference that it makes. Being able to demonstrate their accountability in each of these areas will enable VCOs to justify their voice, both in terms of ‘the veracity of what they said and the authority with which they spoke’ (2002:5), thereby enhancing their legitimacy.\(^ {35}\)

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Relationships
Again the onus must be on VCOs to justify their mandate and their moral claims to represent the public interest, if not the public. But in a sector as diverse as the VCS, where single organisations have multiple accountabilities to a range of stakeholders, one size cannot fit all. Those organisations that have a representative role as part of their mandate can be expected to be transparent about their relationship to those they represent. But this is not appropriate for organisations whose remit requires them to represent the public interest more broadly. More importantly it does not detract from the general requirement on VCOs to be accountable to the public on whose support they rely.

For some organisations democratic accountability to their members is highly valued as a source of legitimacy. For example, the Royal National Institute for the Blind recently introduced changes to ensure that most of its trustees were themselves blind or partially sighted and elected from a broader consultative assembly, whose membership again included a majority of blind or partially sighted people. At the same time it changed its name to the Royal National Institute of the Blind to emphasise this changing relationship. However, others are questioning whether democratic accountability is appropriate or sufficient. For example, at its 2004 annual conference the Ramblers Association announced changes to its constitution to give members less of a say in the affairs of the organisation and greater priority to its public benefit role and its wider accountability to the public.

There is no ‘right way’ to conduct relationships with stakeholders, but organisations should be transparent about their own arrangements and able to justify them. The key issue is that VCOs see themselves as being accountable to constituencies whose ability to hold them to account may in practice be quite limited, but whose support and consent are vital to their legitimacy and credibility. There is an on-going debate within the sector about relationships with a range of stakeholders and the need to balance multiple and sometimes conflicting accountabilities with an organisation’s independence and primary duty to fulfil its mission or purpose. For an organisation such as the RNIB, whose members are also its beneficiaries, a democratic mandate may be more appropriate than for others with a different role or a more diverse membership base.

Where appropriate VCOs need to be accountable to their beneficiaries and take account of their needs, views and preferences. This will not only enhance the appropriateness and effectiveness of their services or campaigns, but also send clear messages about this to other stakeholders, enabling them to justify their role, thereby enhancing their legitimacy: Organisations that advocate on behalf of individuals or communities, or provide services to them, draw their legitimacy in part from those they represent or serve. And not only is the public more likely to have trust and confidence in organisations that can show that their purposes and activities are closely aligned to the needs of users, but it will also place VCOs in a much stronger position to negotiate with funders.

Expertise
Of relevance here is the fact that this relationship with beneficiaries is both an essential aspect of an organisation’s accountability and a source of its expertise and authority, part of its evidence-base, informing the work that it does and justifying the claims that it makes.

36 The experience of the RSPCA in 2001 provides an example of the possible tensions between members’ interests and an organisation’s mission, after pro-hunting supporters joined the organisation with the aim over-turning its policy of opposition to field sports. See: Evans & Hencke, 2001, ‘Olympic star expelled as hunt lobby loses battle for RSPCA’ in The Guardian, 15.06.2001
Clearly not all VCOs have such a direct relationship with individual beneficiaries, but nevertheless they too derive their expertise in part from the work that they do and their experience ‘on the ground’. All VCOs need to be able to explain their aims and objectives and provide evidence to persuade people that their cause is just and deserving of public trust and support.

The fact that VCOs are independent and are not influenced by either commercial or political interests suggests that people are more likely to trust their message.\(^{37}\) However, a more cynical and less trusting public will need more convincing that VCOs are operating in the public interest, rather than out of self-interest. This can be seen, for example, in criticisms of environmental organisations, accused of exaggerating claims in order to increase their own coffers. This highlights the importance of communicating honestly with stakeholders in ways that promote trust.

**Effectiveness**

For Slim an organisation’s performance and impact is critical to its legitimacy: ‘The fact that it works in practice makes it a more legitimate enterprise’. An organisation that can show it provides value-for-money and that it has made a difference will strengthen its position in relation to its stakeholders and, indeed, to the public more generally. This means devising ways of measuring outputs, outcomes and impacts, as well as showing the lessons that have been learned and how this will inform future work. However VCOs need the skills, confidence and resources to enable them to assess and improve their performance, it requires investment in the organisation itself, thereby increasing administration costs.

This means that there is a need to define what value-for-money means for VCOs. As Kendall has argued, in comparison to other sectors the potential outcomes of voluntary sector activity are less clearly defined, hard to measure and highly complex and it is often difficult to attach monetary value to the ‘products’ generated by VCOs, reflecting the ‘added value’ they are said to provide\(^{38}\). It is therefore not helpful to focus on cost-effectiveness (efficiency) without also taking account of performance-effectiveness and the potential added value of the voluntary sector.

There is a need to demonstrate the ways in which administration costs contribute to organisational effectiveness: for example, the need for sound financial systems; good record-keeping; appropriate support and supervision to staff working in the field; as well as effective quality assurance procedures. The key issue is not how low can these costs go, but that they can be shown to enable the organisation to better meet the needs of its beneficiaries and its cause, that such costs are legitimate and justifiable. The same is true of fundraising. Again there is a need to shift the debate from what (and why) does this cost to whether it achieves value-for-money, both in the short and long term.

There is also a growing recognition that VCOs’ claims to ‘add value’ will need to be tested and proven, particularly in areas where they may be competing for contracts against commercial or public sector providers. The added value that VCOs claim to provide comes from their experience ‘on the ground’; it is as much about the way that it works as the results it achieves. The Treasury, for example, has acknowledged the following as features of VCOs, which, at their best, can add value:

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\(^{37}\) Duffy, 2003, *Who do we trust?* MORI

\(^{38}\) Kendall, 2003, *The Voluntary Sector*, Routledge
• specialist knowledge, experience and/or skills;
• particular ways of involving people in service delivery;
• independence from existing and past structures or models of service
• access to the wider community without institutional baggage; and
• freedom and flexibility from institutional pressures.\(^{39}\)

Others have additionally highlighted the sector’s role in contributing to and developing social capital and engaging communities, particularly disadvantaged communities, in decision-making at local and national levels\(^{40}\). These elements are important because they emphasise the wider social and political roles of voluntary organisations within civil society over and above their contribution to service delivery.

However, this notion of added value needs to be defined and demonstrated, it cannot be assumed. As Bolton suggests, such claims are ‘reasonable’ but contingent: ‘Individual voluntary organisations may or may not add value … depending on their particular circumstances and how they operate. And/or they may subtract value’\(^{41}\). Therefore mechanisms need to be developed that would enable individual organisations to demonstrate to what extent, and in what ways, they add value as well as their effectiveness on the ground.

**Self-regulation: Giving an account**

This shows that there is a close inter-relationship between accountability and legitimacy and that greater transparency is the key to improving both. Being transparent is also an important means of developing relationships with stakeholders and engaging them in the work of the organisation. But there is clear evidence that VCOs have begun to address many of the issues identified here and to identify ways of strengthening their accountability.

For example, as the above discussion has shown, VCOs are reviewing their relationship to their members and to the wider public in order to enhance their accountability and balance their responsibilities to different stakeholders. And in common with other sectors, the VCS has had to take on board changing social attitudes and changing relationships between service providers and those they serve. Many voluntary and community organisations have responded positively to these developments and have played a key role in promoting both voice and choice\(^{42}\). Indeed, the voluntary sector has shown a much greater willingness and commitment to this than other sectors and offers examples of good practice from which others can learn.

Similarly in the area of performance improvement there has been a growing awareness that VCOs need to demonstrate the quality of the services they provide and to evaluate their performance and impact. This can be seen, for example, in the increasing take-up of performance assessment and quality assurance models and in the growing interest within the sector in developing appropriate tools to enable organisations to demonstrate the wider impact of their work. Although the Strategy Unit review was critical of progress in this area, suggesting that developments had only been made at the instigation of funders, more recent evidence suggests that this has been less of a driver for improvement than ‘the desire on the


\(^{40}\) NCVO, 2003, *It’s Who You Know that Counts*, NCVO


part of voluntary organisations to demonstrate their legitimacy, accountability and evidence of good practice to a range of external stakeholders.\textsuperscript{43} NCVO’s experience has shown that VCOs are keen to assess and improve their own performance and have the incentive to do so, but many lack the capacity, skills, tools and resources needed to manage these processes and respond to the outcomes from any assessment.\textsuperscript{44} Therefore performance improvement requires investment in the sector’s infrastructure in order to build capacity and awareness, as well as investment in organisations themselves and recognition that performance management systems are an integral part of project costs. Accountability is not simply about reporting progress; it is also about making progress and being transparent about this.

However, this does take us back to the dilemma of administration costs and a perception from some quarters that money directed at building organisational capacity is money not spent directly on beneficiaries or the cause. In other words it is seen as a sign of organisational inefficiency, of being self-interested rather than altruistic. However a defensive approach to such allegations is not sustainable, merely trying to keep such costs low could lead to a race to the bottom that no-one wins. There is a need to educate the public, and the media, that such investment is both necessary and beneficial. This can only be achieved by VCOs being more transparent about what they do and what they achieve.

Similar issues can be seen in relation to fundraising, and again this is an area in which the sector has begun to regulate itself. For example, both the Institute of Fundraising and the Professional Fundraising Regulatory Association have produced Codes of Practice. And in 2001 the Donors Charter was launched and in its first six months had been endorsed by a wide range of charities. The Strategy Unit recommended that the sector should regulate itself in this area, but also warned that failure to do so would lead to statutory regulation. In response to the Strategy Unit, the Institute of Fundraising commissioned Rodney Buse to develop and consult on proposals for a self-regulatory scheme. Buse published his recommendations in April 2004 and the Charities Aid Foundation, in consultation with the sector, are looking at how best to implement this in practice.

A self-regulatory scheme, overseen by an independent body, can play a key role in promoting good practice in fundraising by the sector, by holding them to account for their fundraising activities. It will also enhance the confidence of donors and others concerned with how VCOs raise their money. There are important benefits associated with this approach. However it is also important to be realistic about what it can achieve and to recognise that by itself it will not address peoples concerns with the cost of fundraising, nor does it answer the question as to how effectively the money raised is spent. Again, VCOs need to explain and justify the fact that such costs are legitimate, and demonstrate their effectiveness, in the accounts they give.

These internal developments show that there is a commitment to improving accountability and transparency. The key for the future must be to capitalise on this experience and develop ‘bottom-up’ approaches to these issues, starting from where organisations are and enabling them to develop according to their own needs. These are good practice issues, rather than regulatory issues and highlight the need for good infrastructural support within the sector to engage

\textsuperscript{43} Centre for Voluntary Action Research, Aston University, 2003, \textit{The Adoption and Use of Quality Systems in the Voluntary Sector} QSTG/CES p.34
\textsuperscript{44} NCVO, 2004, \textit{The Impact of Impact Assessment}, NCVO
individual VCOs. But VCOs should also ensure they are making best use of the mechanisms already available, for example by improving the quality of the accounts they give.

As one commentator has argued, ‘Most charities and voluntary organisations … are more accountable than is often appreciated. But it seems a credible hypothesis to suggest that the main outcomes from this activity … are not being effectively communicated to a broader range of stakeholders.’\(^{45}\) This highlights the importance of transparency, both in terms of more effective communication and a wider commitment to being open about what you do and how you do it, being honest about failures as well as celebrating successes. It is not just about ticking boxes.

\(^{45}\) Bolton, 2003, Setting the Record Straight, The Smart Company p.3
7. Conclusion

‘[Accountability] starts with telling stories and adding up. It ends with justification and explanation.’  

Although public trust and confidence in the voluntary and community sector remains relatively high, and rightly so, it is important not to take it for granted: once this high ground is lost it is a much more difficult task to regain it. And we should be aiming to raise it higher. However, it must be recognised that trust and confidence is influenced as much by people’s perceptions of events as by events themselves: negative perceptions of VCO activities and a limited understanding of the sector and how it works, although slight in themselves, may prove damaging in the longer term.

There are a number of reasons why we might be concerned. Firstly it appears that the media may be more ready to criticise VCOs, this can be seen, for example, in the continuing interest in, and antipathy towards ‘chuggers’. Secondly the public themselves appear to have ‘blurred vision’ when it comes to VCOs, their high expectations exist alongside a perception that ‘proper’ charities are and should be amateur. Thirdly there is a perception that the sector’s independence, the freedom and flexibility of VCOs to determine how best they meet their aims, also means that the sector is largely unregulated. As has been shown, this is not the case. Pressure is also likely to increase as the debate about the sector’s role in delivering public services gathers momentum, as former government minister Alan Milburn has said: ‘The sector cannot have its cake and eat it. When it becomes part of mainstream service provision, accountability must follow. The voluntary sector … needs to become more professional and less amateur.’  

But VCOs also need to carry their supporters with them and it is clear that the public is confused about this question of professionalism. And there is a major risk that too great a shift into the mainstream will further diminish public understanding of the sector’s wider role, its independence and its distinctiveness.

In the face of increasing external pressures on VCOs to be more accountable, it is important that VCOs themselves set the terms of debate. And we need to ensure that we have in place measures to promote trust, as well as (if not more than) those that build confidence. This means that VCOs should give a greater priority to communicating with their stakeholders than perhaps they have in the past, not only to counteract such negative perceptions or misconceptions but also to develop more trusting relationships with supporters.

Confidence-building measures are those that seek to hold organisations to account, ensure that they comply with the law or meet the terms of any grant or contract, for example. And this is an important element of accountability: indeed it is for this reason that NCVO has consistently argued that the Charity Commission should have a stronger focus on its regulatory role. However, although essential, external regulation is not without its limitations, including the cost of compliance as well as the potential infringement on the freedom of VCOs to determine their best interests, within the law.

Self-regulation is also an important means of creating confidence. The proposed mechanisms in support of self-regulation of fundraising, for example, would send important signals to the public about how money is raised and the integrity of the organisations asking for their donation. Again, the value of this should be emphasised, but such a scheme cannot also give people confidence...
that the money will be spent effectively. It can only be one element of a broader approach to accountability.

It must be remembered, however, that measures to build confidence do not necessarily promote trust and may even be harmful to it. Trust is about more than compliance with the law and financial probity, important though these are. It is based on shared values and ethos. And this is also the basis of voluntary action and of the moral legitimacy of VCOs: people will support a VCO because they share its commitment to its mission and values. Therefore the extent to which an organisation achieves its aims, and the way that it does this, is as important to its supporters as it is to the organisation itself. VCOs must send clear signals to their supporters, and the wider public, that they are neither an extension of the state nor just another player in the market place; there is a moral basis to their cause and their actions and they can justify this.

The challenge for VCOs is not just to maintain public trust and confidence, but to enhance it. This cannot be done by individual organisations alone; nor can it be achieved by simply reacting to criticisms, eg. of particular methods of fundraising. It requires a collective approach that will pre-empt such criticisms and show that we can be trusted. VCOs need to be clear about what voluntary action means in the 21st Century and communicate this to the public. They need to explain that if VCOs are to play a bigger role in society then they must become more professional in the way they operate in order to meet their legal and moral obligation to maximise the benefit to their beneficiaries. And they must convince the public that this means investing in their organisations and in the people that work in them.

Public trust is critical to the legitimacy of voluntary action. This means that activities that promote trust – honesty, openness, taking account of people’s views and a willingness to take responsibility for mistakes as well as successes – are essential to VCS accountability. All VCOs need to take this seriously by complying with the legitimate requirements of those in a position to hold them to account; being more open in the accounts that they give; and showing that they take account of the views of their stakeholders.

It is the largest charities, as the biggest recipients of public donations, that have most to lose if public trust declines – and perhaps most to gain if it increases. But it is also the case that it is these largest charities, the household names, that are best-placed to convince people that VCOs are becoming more effective as they become more professional and that the costs of running an organisation, what used to be known as ‘core costs’, are an essential part of this. This will also give smaller VCOs the confidence to demand from funders that their costs are met in full and to know that the public supports them in this. The top 100 fundraising charities need to work together to educate the public by being honest about the true costs of their activities. Clearly there is a strong reputational risk attached to this, but it is lessened if all the major charities make a commitment to do this, so that it becomes the norm. NCVO believes that any short-term loss of confidence will be more than offset by increasing public trust as the sector gains a reputation for honesty and transparency.

Recommendations

NCVO believes that greater transparency will enhance public trust. That does not mean that we are asking VCOs to produce more reports, we do not want to increase the burden of reporting. Rather we believe that VCOs should produce more honest reports, drawing attention to strengths and weaknesses, both in terms of the organisation themselves and the environment in which they operate. Reporting is not simply a matter of presenting financial accounts, nor is it a public
relations exercise; it is a means of engaging with their public and securing their support and consent.

NCVO believes that the larger charities should take a lead in setting the terms of debate and should:

- develop a more detailed understanding of the benefits of transparency and accountability;
- work together to ensure the public are better informed and more aware of what charity means in the 21st Century;
- agree a collective statement to be included on publicity and other material stating that, in common with other charities, they are committed to ensuring that the organisation is as efficient and effective as possible;
- be transparent about how much they spend, and how this helps them to meet the needs of beneficiaries, in order to generate greater public awareness and understanding of how such costs enable charities to achieve their mission more effectively;
- participate in and actively promote a new self-regulatory fundraising scheme to enhance donor confidence in fundraising activities and in the sector’s ability to regulate itself in this respect;
- recognise the need to comply with legal reporting requirements;
- go beyond these requirements and make better use of existing reporting opportunities, such as GuideStar UK, the new Standard Information Return, Annual Reports etc;
- set new standards of transparency in reporting by providing reflective accounts of progress, assessing challenges and setbacks as well as achievements, opportunities and impact (positive and negative); and
- ensure these reports are well-publicised and readily available to the public, both in hard copy and on the web.

NCVO also believes that government, funders and regulators must acknowledge the extent to which the sector is already regulated and should make better use of the reports that are available, rather than insist on separate, detailed reports that duplicate information already provided elsewhere.

And it should be recognised that greater transparency requires a learning culture, not a blame culture, where allowance is made for failure and it is seen as the price of innovation as well as a learning opportunity. Government and others need to value honesty and transparency above winning or losing.